Y 4. J 89/2: S.HRG. 103-969

S. HRG. 103–969

OVERSIGHT OF THE PATENT AND TRADEMARK OFFICE

HEARING

BEFORE THE

SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS

OF THE

COMMITTEE ON THE JUDICIARY UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

S. 1854

TO AMEND THE PROVISIONS OF TITLE 35, UNITED STATES CODE, TO PROVIDE FOR PATENT SIMPLIFICATION

MARCH 9, 1994

Serial No. J–103–44

Printed for the use of the Committee on the Judiciary

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OVERSIGHT OF THE PATENT AND TRADEMARK OFFICE

WEDNESDAY, MARCH 9, 1994

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m. in room 226, Dirksen Senate Office Building, Hon. Dennis DeConcini [chairman of the subcommittee] presiding.

OPENING STATEMENT OF HON. DENNIS DeCONCINI, A U.S. SENATOR FROM THE STATE OF ARIZONA

Senator DECONCINI. The Subcommittee on Patents, Copyrights and Trademarks will come to order.

I would like to welcome everyone to the hearing this morning, and I apologize for my tardiness. I want to thank the witnesses for being here today to provide their insight on the workings of the PTO, or the Patent and Trademark Office, and how it can better meet the needs of U.S. inventors and trademark owners.

In particular, the subcommittee would like to welcome Mr. Lehman, the Commissioner of Patents and Trademarks. He's been a witness and worked up here on staff as well as in the private sector. So, Mr. Lehman, we're very pleased to have you here in an official capacity. We look forward to your remarks on the operation of the PTO and the perceptions about the changes necessary to make that office more efficient and effective, and that's a big job, as I know you are aware.

A new Administration brings with it a desire for change and a spirit of enthusiasm. Patent reform and the many related areas will benefit from the interest that both Commissioner Lehman and Secretary Brown bring to it in their respective positions. The process has started with an introduction of patent terms and publication legislation. Today we will discuss other steps that can be taken to ensure that progress is made and that America remains competitive in the future.

The PTO has the responsibility for protecting the rights of inventors and preserving the ability of U.S. inventors to keep America on the leading edge of technology and to compete in the development of global markets. Witnesses representing a variety of interests in the patent system will come before this subcommittee today with information necessary to provide proper oversight of the PTO.

I look forward to information and discussion on automation of the patent system. At my request, the General Accounting Office

conducted a thorough review of PTO's automation system, and its status is of great concern to this subcommittee. Other issues before the subcommittee include trademark harmonization, the status of the Madrid Protocol, implementation of GATT, and funding for the PTO. I'm also pleased to hear of the Administration's effort to prevent the diversion of user fees from the PTO.

On February 11th, I introduced the Patent Term and Publication Act of 1994, S. 1854. This legislation establishes a fixed 20-year patent term beginning from the date that the application is filed. Such a change in our law will be required under the GATT agreement. The bill also provides for the publication of all patent applications after 18 months. Much of today's testimony will be focused upon the provisions of the bill, and I look forward to hearing all of the concerns and comments that our witnesses have on the legislation.

I've served on this committee and have been chairman for over 7 years, and during that time we've made important changes in our patent laws, advanced worldwide patent protection, and improved the efficiency, I hope, of the PTO. But we have much more to achieve.

Strong oversight by the Congress of both the operation of the PTO and our international negotiations on intellectual property is essential to keep this nation competitive in the world market.

So I thank all of you for being here. Our lead witness is Commissioner Bruce Lehman and Brad Huther is also accompanying him.

Commissioner, your full statement will appear in the record. You may summarize it for us.

STATEMENT OF MR. BRUCE A. LEHMAN, COMMISSIONER, ASSISTANT SECRETARY OF COMMERCE, PATENT AND TRADEMARK OFFICE, WASHINGTON, DC; ACCOMPANIED BY MR. BRAD HUTHER, PATENT AND TRADEMARK OFFICE

Mr. LEHMAN. Thank you very much, Mr. Chairman.

Let me start out by saying what a pleasure it is to be working with you, and Senator Hatch, and the other members of the committee because I think that the individuals, the inventors and creators, that have a stack in America's intellectual property system have been very fortunate during the last 7 years in that they've had very dynamic leadership on Capitol Hill, which often has been even ahead of the Executive Branch of Government in terms of meeting the needs and providing for the needs of America's creators.

And, in fact, I just came from Europe. I got in last night from Brussels working with some of my counterparts on the European Commission, and I must say that it reminds me that there's a great value in having the tripartite Government with the different branches that we have—the Legislative Branch to keep the Executive Branch honest, to take the leadership and various items. And, in fact, you know, you in many ways have anticipated some of the things that we're working on in S. 1854 that you've introduced.

So I think we have a great system, and I'm really looking forward to—it's really going to be a pleasure during the next several years to work with this committee and to continue in this bipartisan spirit of cooperation.

I have with me Brad Huther whose existing title is Assistant Commissioner for Finance and Planning and will shortly become Associate Commissioner, as we're reorganizing the Patent and Trademark Office. And Brad knows all of the facts and figures and statistics regarding the Patent and Trademark Office more than anyone else, and I'm sure that if we have a need for that and I don't have them right at my fingertips, he'll be happy to supply them.

But I would like to start, Mr. Chairman, by giving an overview of what's going on—you and the members of the committee—on what's going on right now in the Department of Commerce with regard to intellectual property and at the U.S. Patent and Trademark Office.

First, the Authorization Bill for fiscal year 1995 that we'll be submitting shortly will authorize all fees that are collected by the Patent and Trademark Office during fiscal year 1995, including all of those fees derived from the patent surcharge, to be available to the Patent and Trademark Office for the issuance of patents. And you've referred to that in your opening statement, Mr. Chairman.

For that fiscal year—that is, for fiscal year 1995, which will start this October—the program for the PTO is again proposed to be funded solely by fee income. We currently estimate that revenue and our cost to be $571,439,000. That represents a $67,418,000 increase over the previous year, and I must say that really is a testament to America's creators because our business is booming. We're getting more patent applications, and since we're fully fee- funded, this means that our business is increasing, and it's good for the economy that we're issuing more patents. And it really is coming for America's creators too because actually the percentage of foreign applications is going down in our office, and we're seeing an increase in domestic applications.

Because the $571 million that I'm requesting here today will be used to fund our operations, I would like to take this opportunity to briefly describe to you our patent, trademark and automation operations because that's where that money will be going:

In fiscal year 1993 we received a record 174,553 patent applications, and we issued 107,332. Fifty-five percent of those patents were issued to residents of the United States. In regard to our trademark operations, we are still experiencing about a 50 percent increase in the number of trademark application filings as a result of enactment of the Trademark Law Revision Act.

In fiscal year 1993 we received 139,735 trademark applications, and we registered 86,122. This is the largest number of trademarks ever registered in one fiscal year. This is also indicative I think of increased economic activity in the country so it's good news.

Now, our Office of Information Systems is a very important part of our operation because it's continuously developing and implementing new automated systems to support the patent and trademark examination process. That was something, by the way, speaking of the partnership between Congress and the Executive Branch, that in effect was initiated by Capitol Hill, by Congress in 1981.

We have now completed the development phase of our text and image search capacities for U.S. patents, and we've also just completed development of the first phase of our new trademark search

system, the X–Search System. These patent trademark search systems should improve the efficiency of examination and the dissemination of information to the public.

The PTO has also used technological advances in the automation area to improve the dissemination of patent and trademark information, and I think we have a lot of promise yet to come in that area. At present we regularly produce seven types of CD–ROM products, and as the demand for patent technology grows, we believe that CD–ROM technology offers to potential to disseminate information that we publish more quickly and less expensively.

And, I must say, Mr. Chairman, I saw a very practical illustration of that when about a week and a half ago I was in California and I visited our patent depository library in Sunnyvale in the heart of Silicon Valley. We have more patent applications coming out of Santa Clara County, CA, than any other place in the United States, and those CD–ROM products were being actively used by approximately 55,000 that come to that patent depository library in Sunnyvale every year.

Our future automation plans include producing a new CD–ROM product that will contain patent specifications in developing a system that would make it possible for the PTO to accept electronic patent applications, which is going to be the next major stage of our automation effort.

One of the PTO's primary goals is to play a leadership role in the policy and trade issues for which we have responsibility outside of the office, and over the past decade we have actively participated in an unprecedented number of international activities aimed at improving intellectual property protection worldwide. And I would like briefly to review what some of those activities have been in the last year:

First, we've been actively involved in patent harmonization law treaty negotiations, and based on the comments that we've received during a public hearing that we held in October of last year and the status of negotiations with our major trading partners in other areas, Secretary Ron Brown decided that we would not seek to resume that effort at this time. Now that doesn't mean that we're not committed to harmonization. We really are, but we want true harmonization and we're vigorously at work on attempting to bring that about.

On the bilateral front, we have held discussions with officials from the Japanese Patent Office, which are separate from other more formal discussions which we're having with Japan that we also are involved in that are a part of the U.S.–Japan trade framework negotiations, and those discussions have focused on an attempt to ease the burden on U.S. patent applicants seeking protection in Japan.

This past January we were able to arrive at an agreement with the Japan Patent Office whereby they will for the first time accept patent applications in English. It may sound like a small thing, but it's very, very important to U.S. patent applicants in Japan.

In exchange for this concession, we have agreed to propose legislation by June of this year that will change our patent term from 17 years from grant to 20 years from the filing date of the patent

application, and, of course, Mr. Chairman, you've beat us to the punch. You've already introduced legislation which contains that.

I'm certain that the agreement that we reach with the Japan Patent Office will go a long way to lowering one of the administrative obstacles that we've faced in Japan. We still have a lot further to go, however, and I would be happy to explain that more if you would like in questions.

The PTO has also taken an active role to implement the Madrid Protocol in the trademark area. The Administration supports succession to the Madrid Protocol, and, in fact, I think probably next week the State Department will clear the treaty to be sent over to the White House and then up to the Senate.

When the Madrid Protocol enters into force, the protocol and its regulations will provide a trademark registration filing system that will permit a U.S. trademark owner to file for registration in any number of member countries by filing a single standardized application in English with a single fee in the PTO. And assuming that the protocol is approved during this session of Congress, we plan to be ready to implement it in 1996.

And, Mr. Chairman, that's an example of the kind of international harmonization that we're really seeking where we can get very rapid worldwide coverage immediately following applications by domestic applicants in the U.S. Patent and Trademark Office.

In summary, Mr. Chairman, we plan to participate on many fronts to improve intellectual property protection worldwide. We intend to work very closely with you, with other members of the committee, and your staff on the many legislative proposals that will shape our intellectual property laws and keep our laws attuned with rapid advances in technology. And I look forward to working with you and the other members of the subcommittee in the upcoming session. I think it's going to be a real pleasure.

And, once again, I would really like to thank you for this opportunity to not only hear from us, but also from our customers. I think in this Administration Vice President Gore's initiative is placing the emphasis on customer satisfaction, and so I think it's to your credit that you're bringing our customers full-fledged into this oversight hearing because not only do you need to hear what they're thinking about what we're doing, but we need to hear it as well.

Thank you, Mr. Chairman.

[Mr. Lehman submitted the following:]

PREPARED STATEMENT OF BRUCE A. LEHMAN

SUMMARY

The Administration again proposes to fund the Office solely by fee income in fiscal year 1995. The program level proposed by the President for the next fiscal year is $571,439,000. This program represents a $67,418,000 increase over the program enacted for fiscal year 1994—$504,021,000. The additional income necessary to fund this program would come from increases in services requested or workload (including patent and trademark applications). The Office is considering an adjustment equal to the Consumer Price Index to statutory patent fees and patent service fees for fiscal year 1995.

Of the $67,418,000 increase, the net adjustment to the fiscal year 1994 base program will be $33,767,000. Of this $33,767,000, $14,671,000 is needed to restore funding reductions in the fiscal year 1994 enacted budget; $12,294,000 is needed to fund a fiscal year 1995 pay raise and the costs in fiscal year 1995 of the fiscal year

1994 locality pay adjustment; $2,976,000 is needed to fund the full-year cost in fiscal year 1995 of those hired in fiscal year 1994; and $3,826,000 is needed to compensate for inflation.

The remaining $33,651,000 of the $67,418,000 increase includes $4,969,000 for the cost of processing the expected increase in workload; $24,381,000 for developing and implementing programs in the automation area; and $4,301,000 for funding quality programs including those aimed at expanding the patent quality review program, expanding patent classification activities, and providing enhanced search tools to patent examiners.

In fiscal year 1993, we received a record 174,553 patent applications and issued 107,332 patents. We currently estimate that we will receive between 179,000 to 185,000 patent applications this fiscal year. In fiscal year 1993, we received 139,735 trademark applications. We took first actions on 131,191 trademark applications and disposed of (by registration or abandonment) 126,874 trademark applications last fiscal year. Of the 126,874 applications disposed of in fiscal year 1993, the Office registered 86,122 trademarks. This is the largest number of trademarks ever registered in one fiscal year. We estimate that we will receive 148,000 trademark applications this fiscal year.

Mr. Chairman and Members of the Subcommittee: Thank you for this opportunity to appear before the Subcommittee. I will describe the continuing role that the Patent and Trademark Office (PTO) plays under the Clinton Administration. In particular, I will summarize our accomplishments over the past year and discuss our plans for the months and years to come, highlighting the authorization proposal for fiscal year 1995.

One of the principal ways President Clinton and Secretary Brown are seeking to improve U.S. competitiveness in the international marketplace is by placing increased attention on technology-based economic growth. Over the past year, the PTO has been at the forefront of the Administration's efforts to spur the technological capabilities that bear on economic growth. At the very heart of technological-based economic growth are America's thinkers and creators—they are the engine that runs the U.S. economic machine. The PTO provides an invaluable link between these architects of invention and a technology-based economy. The over 5,000 PTO employees dutifully serve America's inventors and entrepreneurs to provide them with the protection and encouragement they need to turn their inventive ideas into tangible realities capable of propelling the Nation's economy into the 21st Century.

If the PTO is to stimulate U.S. inventorship as President Clinton and Secretary Brown propose, we must improve upon the standards we set for ourselves. In this regard, it has become my chief objective to redefine and improve upon the objectives and goals of the PTO so that the PTO can better serve the public and foster the technology-based economic growth envisioned by the President and Secretary Brown. Accordingly, I have proposed the following as the PTO's two primary goals:

- To provide the public with the highest level of quality and customer service in all aspects of PTO operations; and
- To play a leadership role in the policy and trade issues for which we have responsibility outside the Office.

Secretary Brown has redefined our Office's mission statement to reflect the expanded goals and objectives of the PTO. This new mission statement for the PTO is:

- To administer the laws relating to patents and trademarks to promote industrial and technological progress in the United States and strengthen the national economy;
- To develop and advise the Secretary and the Administration on intellectual property policy, including copyright matters; and
- To advise the Secretary and other agencies of the U.S. Government, such as the United States Trade Representative, in cooperation with the International Trade Administration, on trade-related aspects of intellectual property.

Fiscal year 1995 authorization request

The PTO could not begin to meet its goals if not for the stable funding base provided by our user fee system. The system was created by Public Laws 96–517 and 97–247 and modified by successive authorization Acts and the Omnibus Budget Reconciliation Acts of 1990 and 1993.

Under the Omnibus Budget Reconciliation Act of 1990, a surcharge is charged by the PTO on all user fees identified in subsections 41(a) and (b) of title 35 of the United States Code. These surcharge revenues are placed in a Fee Surcharge Fund

in the U.S. Treasury. The user fees and surcharges are subsequently made available to the PTO. By funding the PTO in this manner, no taxpayer revenue is appropriated to the PTO, which aids the efforts to reduce the National deficit.

The Authorization Bill for fiscal year 1995 would authorize all fees collected by the Patent and Trademark Office during fiscal year 1995, including those fees derived from the patent fee surcharge, to be available to the Commissioner. For that fiscal year, the program for the PTO is again proposed to be funded solely by fee income and is currently estimated to cost $571,439,000. This program represents a $67,418,000 increase over the program enacted for fiscal year 1994—$504,021,000. The additional income necessary to fund this program would come from increases in services requested or workload (including patent and trademark applications). The Office is considering an adjustment equal to the Consumer Price Index to statutory patent fees and patent service fees for fiscal year 1995.

Of the $67,418,000 increase, the net adjustment to the fiscal year 1994 base program will be $33,767,000. Of this $33,767,000:

- $14,671,000 is needed to restore funding reductions in the fiscal year 1994 enacted budget;
- $12,294,000 is needed to fund a fiscal year 1995 pay raise and the costs in fiscal year 1995 of the fiscal year 1994 locality pay adjustment;
- $2,976,000 is needed to fund the full-year cost in fiscal year 1995 of those hired in fiscal year 1994; and
- $3,826,000 is needed to compensate for inflation.

The remaining $33,651,000 of the $67,418,000 increase includes:

- $4,969,000 for the cost of processing the expected increase in workload;
- $24,381,000 for developing and implementing programs in the automation area; and
- $4,301,000 for funding quality programs including those aimed at expanding the patent quality review program, expanding patent classification activities, and providing enhanced search tools to patent examiners.

Because the $571,439,000 that I am requesting here today will be used to fund our operations, I would like to take this opportunity to briefly describe our patent, trademark and automation operations.

Patents

In fiscal year 1993, we received a record 174,553 patent applications and issued 107,332 patents. This includes utility, plant, and reissue patent applications but excludes international filings in the Office as a receiving authority under the Patent Cooperation Treaty. Fifty-five percent of the patents were issued to residents of the United States. This is approximately the same as in fiscal year 1992.

This year we originally estimated that we would receive 189,000 patent applications. Because we received fewer applications than expected in fiscal year 1993, we adjusted our initial estimate. We currently estimate that we will receive between 179,000 and 185,000 patent applications this fiscal year and 185,000 in fiscal year 1995.

Despite annual increases in filings, we continue to attempt to achieve our goal of 18-month pendency. In fiscal year 1993, the average pendency time was 19.5 months for utility, plant and reissue patents. In an effort to maintain an average pendency of 18-months, we hired 210 new patent examiners during the past fiscal year. With examiner attrition, the number of examiner professionals (including design examiners and immediate supervisors) at the end of last fiscal year was 2,052. We plan to hire 150 professionals in fiscal year 1994 and 430 professionals in fiscal year 1995, in addition to the necessary clerical staff, in an effort to achieve our pendency goals.

Trademarks

In regard to our trademark operations, in fiscal year 1993 applications for registration increased by over 14,000 from the prior year, an increase of over 10 percent. This increase, along with sustained 50 percent increase in the number of trademark application filings as a result of enactment of the Trademark Law Revision Act has caused us to fall short of our trademark pendency goals of examining all new applications within three months of filing and registering or abandoning applications within thirteen months of filing, despite an overall increase in production in trademark examining operations.

In fiscal year 1993, we received 139,735 trademark applications. We took first actions on 131,191 trademark applications and disposed of (by registration or abandonment) 126,874 trademark applications last fiscal year. Despite our efforts, we fell

average time between the filing of an application and the Office's mailing of the trademark examining attorney's initial office action on the application was 4.0 months. The average time between the filing of an application and its registration, abandonment or notice of allowance issuance was 14.4 months at the end of fiscal year 1993.

Of the 126,874 applications disposed of in fiscal year 1993, the Office registered 86,122 trademarks. This is the largest number of trademarks ever registered in one fiscal year. This increase is primarily due to the increased number of applications filed after the intent-to-use legislation went into effect that are now maturing into registrations.

This fiscal year we originally expected to receive 138,000 trademark applications. Based upon a significant rise in applications received in fiscal year 1993, we revised our fiscal year 1994 projections. We now estimate that we will receive 148,000 applications in fiscal year 1994.

In late fiscal year 1993 and early fiscal year 1994, the PTO hired twenty-six trademark examining attorneys, a net increase of fourteen examiners after accounting for attrition. Due to low attrition in the PTO in recent years the current staff is one of the most experienced the Office has ever had. We continue to conduct training sessions and legal lectures for our new attorneys and for all our managers, supervisors and experienced attorneys in the trademark operation with the goal of improving overall examination quality.

Automation

The PTO's Office of Information Systems is continuously developing and implementing new automated systems to support the patent and trademark examination processes. In 1983, the PTO began a program to provide automated support to its patent-related activities. This program, called the Automated Patent System (APS), consists of two major components: the Search and Retrieval system and the Patent Application Management system.

The Search and Retrieval component of the Automated Patent System enables examiners to review text from data bases containing U.S. patent documents using "word" searches and enables examiners to retrieve digital images of domestic and foreign patent documents by technological classification. The implementation of the text and image search systems has greatly improved the quality of the patents we issue. This is due to the fact that the text and image search systems obviate the problem of file integrity by ensuring that all references are available to the patent examiners when they are conducting their searches.

The other main component of the Automated Patent Search System will be the Patent Application Management System (PAM). The Patent Application Management System will provide for receiving, processing, management and publication of patent applications in electronic form.

Another aspect of the PTO's automation program is the trademark search system, "X–Search." The first phase of the X–Search system, a faster and more powerful workstation and an improved image system, was deployed in fiscal year 1993. Full implementation of the new X–Search system in fiscal year 1995 should result in reduced search times, thereby improving the efficiency of trademark examination and the dissemination of trademark data to the public.

The PTO has also used technological advances in the automation area to improve the dissemination of patent and trademark information. We have been able to increase dissemination of information through the use of compact disk technology (CD–ROM). At present, we regularly produce seven types of CD–ROM products. One of our newer CD–ROM products, entitled "ASIST," will make it much easier to do field searches for prior art. In recognition for its achievements in CD–ROM technology, our Office of Information Systems won the Fed Micro CD–ROM Award at the Fed Micro Conference in Washington, D.C. this past September.

As the demands for patent technology grows, we believe that CD–ROM technology offers the potential to disseminate the information we publish more quickly and less expensively. We are in the process of producing a new CD–ROM product that will contain patent specifications. We anticipate that this new product will be available by late 1994. We intend to continue our policy of implementing these and other high-tech, cost-effective measures in the months and years ahead.

Patent law harmonization

As I noted earlier one of the PTO's primary goals is to a play a leadership role in the policy and trade issues for which we have responsibility outside the Office. Over the past decade, the PTO has actively participated in an unprecedented number of international activities aimed at improving intellectual property protection

worldwide. One of the more prominent of these activities has been the Patent Law Harmonization Treaty.

As you know, the second session of a diplomatic conference on the patent Law Harmonization Treaty has been postponed by the World Intellectual Property Organization (WIPO) at the request of the United States. To determine the nature and extent of the support or opposition to the various provisions of the Patent Law Harmonization Treaty, we held two days of public hearings in October 1993. Over 70 people testified at the hearings and over 300 written comments were received expressing a broad range of views on issues such as what procedure the United States should use for awarding patents (first-to-file or first-to-invent); whether the PTO should publish patent applications, and if so, should the applications be published at 18 or 24 months after filing; and what should be the appropriate term of protection, twenty-years from the filing date of the application or 17 years from the date of issuance. These comments played a significant role in our decision making process.

On the basis of the comments received, as well as the status of negotiations with our major trading partners in other fora, Secretary Brown decided that we would not seek to resume negotiation of the Treaty at this time. While the Treaty offers significant long-term advantages for U.S. patent interests, the Secretary was not convinced that American industry, and especially small businesses and independent inventors, would sufficiently benefit from the changes the current text of the treaty would require of the United States given the benefits we would receive from our competitors.

Madrid protocol

In another activity, the PTO has taken an active role at WIPO in the preparation of the Regulations to implement the Protocol to the Madrid Agreement Concerning the International Registration of Trademarks (Madrid Protocol).

Identical bills to implement the Madrid Protocol are pending in the Senate (S. 977) and the House (H.R. 2129). Last Spring, the Administration, along with INTA and WIPO, testified in favor of the bill before the House Subcommittee on Intellectual Property and Judicial Administration. The Administration supports accession to the Madrid Protocol because we believe that the Protocol will offer several major advantages to United States trademark owners. First, when it enters into force, the Protocol and its Regulations will provide a trademark registration filing system that will permit a United States trademark owner to file for registration in any number of member countries by filing a single standardized application, in English, with a single fee, in the PTO.

A second advantage is that, under the Protocol, renewal of a trademark registration in each country may be made by the filing of a single request with a single fee. These advantages should make access to international protection of trademarks more readily available to both large and small United States businesses.

We have been working with the State Department to prepare the request for advice and consent to accede to the Protocol. Implementation of the Protocol at the PTO will require significant administrative and automation changes. However, assuming the Protocol is approved during the current session of Congress, the PTO plans to be ready for implementation during 1996.

Agreement between the USPTO and the JPO

Separate from other, more formal ongoing discussions we are having with Japan, we have held discussions with officials from the Japanese Patent Office (JPO) in an attempt to ease the burden on U.S. applicants seeking protection in Japan. This past January we were able to arrive at an agreement with the JPO whereby, beginning on July 1, 1995, U.S. applicants will be able to file patent applications with the JPO in English provided that a translation into Japanese is filed within two months. In exchange for this concession by the JPO, I agreed to propose legislation by June of this year that would change our patent term from 17 years from grant to 20 years from the filing date of the patent application. I am certain that the agreement that we reached with the JPO will go a long way to lowering one of the administrative obstacles facing U.S. applicants in Japan. It is likely that this proposal will be submitted as part of the TRIPs implementation package. This proposal will also be consistent with the Patent Term and Publication Reform Act, introduced by Senator DeConcini last month.

Patent term and publication reform act

The Patent Term and Publication Reform Act would make revolutionary changes in the patent system. In addition to changing the patent term to twenty years from the filing date of the patent application, the bill would create a "provisional" application which would provide small entities with time to determine whether it is fea-

sible to exploit the invention and, thus, whether they should prosecute the application further. This proposed legislation would also provide for the publication of patents eighteen months after the filing date and for provisional rights between publication and grant of the patent. Although this proposed legislation takes an impressive step to ensure that the inventive genius of America's creators and thinkers is adequately protected here and abroad, we believe that it may be premature to adopt the eighteen-month publication proposal until we resolve other issues relevant to this topic. We would be pleased to work with you in this regard.

Future international intellectual property issues

In addition to these issues, there are many other significant intellectual property issues on the horizon that bear mentioning. In the coming months we will address several of the problems plaguing the patent-user community. For instance, in January and again last month we held public hearings on the patentability of software-related inventions. I intend to analyze the comments we received and take whatever steps are necessary to shape our intellectual property system into one that provides effective protection for software while continuing to foster a strong incentive for software innovation.

We also hope to address many of the issues that were unresolved in the TRIPs negotiations. Most notably, the final text of the TRIPs agreement fails to include a national treatment provision that would provide broad national treatment obligations to performers and producers of sound recordings, motion pictures and other works that are protected as neighboring rights. The absence of a broad national treatment obligation means that countries of the European Union (EU) can refuse to pay American film and sound recording companies their fair share of the levies collected for the home taping of their products. In the coming months we hope to resolve these inequities confronting the U.S. copyright industries.

In this regard, I am pleased to announce that I have just returned from Brussels, where I participated in a meeting with my EU counterparts to discuss the next meeting of experts on a possible Protocol to the Berne Convention and a new instrument dealing with performers and producers of sound recordings. These draft agreements offer the possibility of improving the present standard of intellectual property protection afforded to U.S. rights holders by establishing an expansive definition of national treatment that will cover future rights and works, as well as a right of commercialization and distribution.

Another issue that has arisen in the context of our meetings with the EU is the possibility of including a performance right for sound recording producers in the new instrument. The performance rights issue has been widely debated and is the subject of S. 1421, which the Administration is examining closely. One benefit of including a performance right for sound recording producers in the new instrument is that it would permit U.S. recording companies to gain access to their share of the royalties collected in certain foreign countries for public performances of their sound recordings in those countries.

In summary, the PTO plans to participate on many fronts to improve intellectual property protection worldwide. We intend to continue to work closely with this Subcommittee on many of the legislative proposals that shape our intellectual property laws and keep our laws attune with the rapid advances of technology. We also will keep you informed of international developments as they occur. I look forward to working with you Mr. Chairman and other members of the Subcommittee.

Once again I would like to thank the Subcommittee for this opportunity to testify. I will be pleased to answer any questions that you may have.

BRUCE A. LEHMAN'S RESPONSES TO QUESTIONS SUBMITTED BY SENATOR DECONCINI

Question 1. I understand significant reorganization in administrative positions at the Office is underway. Please submit a summary of the changes being made and any documentation on this reorganization plan.

Answer. I have attached a copy of my reorganization plan (Attachment 1). This plan has two primary effects. It consolidates common functions that are presently dispersed among multiple operating units and focuses the chain of command on five major organizational elements.

Each of the five organizational elements have distinct but common internal operating responsibilities and report directly to the Assistant Secretary of Commerce and Commissioner. In particular, the reorganization plan consolidated all policy, legal, legislative and appellate programs under the Deputy Assistant Secretary and Deputy Commissioner. The plan also established a new Associate Commissioner as the principal advisor to the Assistant Secretary of Commerce and Commissioner with regard to planning, budgetary, financial and procurement matters; human re-

sources, administrative programs and quality services; information dissemination; and computer and telecommunications operations. The reorganization plan assigns responsibility for all patent and trademark functions and activities necessary for examination of applications (from pre-examination through post-examination) under the Assistant Commissioners for Patents and Trademarks. Furthermore, the new plan established a Chief Information Officer as the principal advisor to the Commissioner with regard to the evaluation of information technology, the architectural design of automated initiatives, and the development of strategic plans.

Question 2. What are your plans to improve the automated patent systems in the short term? In the long term?

Answer. The PTO's Automated Patent System (APS) deployment strategy, which includes development activities that will complete deployment of APS, is being reevaluated. A revised deployment strategy will be finalized by the end of August. We will be pleased to provide a synopsis of our revised deployment strategy once it has been finalized.

Question 3. Is full implementation of the automated patent system still expected to occur by 1997?

Answer. No. Full implementation of the Automated Patent System (APS) will not occur until after 1997. As noted in the answer to question 2, we are presently revising our APS schedule and can provide you with a more detailed response when this revised schedule is in place.

Question 4. The GAO's September 1993 report on APS criticized the management of APS and recommended that certain steps be taken to insure that the PTO adequately analyzes the costs and benefits of any incremental changes to the automated system. Furthermore, the GAO recommended that a means of tracking changes and their associated costs be put in place.

Have the GAO recommendations been implemented? If not, why not?

Answer. On December 7, 1993, Secretary Brown responded to the GAO that the PTO had agreed to implement the three recommendations contained in their report. Following is the status of the implementation:

> Work is under way to formalize the process which considers the benefits of each new increment of the APS. The analysis and approval of the Patent Application Management sub-system will be used as a baseline model. The Office also intends to refine the cost-benefit decision model which was established in 1986 to measure actual versus planned benefits. An integrated process is expected by the end of fiscal year 1994.
>
> The PTO is developing a rigorous, systematic, and repeatable process for estimating APS costs. The Office has begun monitoring costs by accumulating current negotiated task order costs into system-level cost estimates. The Office expects to implement the process by the end of fiscal year 1994.
>
> The PTO is modifying the existing automated management tools used by its Information Systems staff to link cost baselines with schedule baselines. While these tools currently track the progress of task order level milestones as well as aggregations of these milestones up to the system level, our planned modifications will enable the PTO to provide cost estimates at the corresponding sub-system level by the end of the third quarter of fiscal year 1994.

Once these actions have been completed, we will analyze whether the PTO's future plans for APS are justified. The results of this analysis should be available within the first quarter of fiscal year 1995.

Do you think PTO's plans for APS are justified?

Answer. At the beginning of this fiscal year, I directed an intensive zero-based review of all automation programs and funding for fiscal year 1994, including the APS program. As a result, we are close to finalizing an agenda and a schedule that I believe will meet the needs of our examiners and the public.

Question 5. I have been very interested in the effect of any costs savings the automation system would generate on the operations of the Office, including whether this would change your personnel needs or the amount of office space.

Are plans underway to fully implement those parts of the system that will in fact increase savings to the Office?

Answer. The deployment and implementation of the following APS subsystems are expected to generate significant cost savings on the operations of the Office:

- Patent and Trademark Copy Sales;
- Classified Search and Image Retrieval; and
- Patent Application Management.

PATENT AND TRADEMARK COPY SALES

The new, automated Patent and Trademark Copy Sales (PTCS) subsystem has begun providing savings in space costs and is expected to reduce contractor costs. Due to this subsystem, the PTO released its space located in the Department of Commerce, Hoover Building at a savings of $1,000,000 in rent for fiscal year 1993.

CLASSIFIED SEARCH AND IMAGE RETRIEVAL

The existing paper Examiner Search File consists of three parts, U.S. patents, foreign patents, and other patent-related technical matter called non-patent literature. A major objective of the automation program which began in 1982 was to convert this paper to electronic form. Today, the PTO is operating a data base which contains the images of all U.S. patents issued since 1789 (approximately 5.5 million). By the year 2000, the Office expects to operate a data base which will contain the full images of foreign patents (approximately 18 million).

The U.S. patent image data base, and eventually the foreign patent image data base, is accessed by patent examiners through the Classified Search and Image Retrieval (CSIR) subsystem. However, only four of the sixteen Patent Examining Groups have access through specially designed clustered workstations. Since twelve other Groups continue to search in paper and have not yet received training on CSIR, and patent searching often requires examiners to use the search files of other Groups, the portion of the paper search file containing U.S. patents for the four automated Groups cannot be removed. In fact, removal of the entire U.S. paper search file cannot take place until a workstation has been deployed to every patent examiner and training on CSIR has been provided.

Depending on resource availability, the pace and successes of completion of the electronic data base and of the deployment of workstations should permit elimination of the U.S. and foreign paper file near the year 2000.

In 1992, the General Services Administration funded a space requirements study for the PTO. The study determined that in 1996, the PTO would need a total of 115,600 square feet to store the Examiner Search Files. By 2000, this space requirement is expected to grow to almost 125,600 square feet. After considering that approximately 6 percent of this space would be used to store non-patent literature, the Office could expect to see as much as 120,500 square feet available for other use. For example, this square footage could provide space for approximately 800 patent examiners.

PATENT APPLICATION MANAGEMENT

We anticipate that when applications are stored electronically under the Patent Application Management (PAM) subsystem, we would need less space to store paper applications. Based upon the same space requirements study conducted in 1992, each Patent Examining Group requires 1,400 square feet to store pending applications. This could represent a total savings of 23,800 square feet, which could provide space for about 160 examiners.

In addition to the space savings associated with discontinuing paper application storage, PAM would yield space savings associated with the reduction of personnel. The PTO has identified, through its 1992 cost/benefit analysis, that at the end of 2013 approximately 464 fewer employees would be needed than if current operations were to continue unchanged. These employees currently perform functions in pre- and post-examination, and, therefore, represent non-examiner positions. When multiplied by the space study's primary utilization rate for non-examiner office space (122 sq. ft.), use of approximately 56,608 square feet could be better used or its acquisition avoided.

There is another way of viewing benefits associated with the better use of space resulting from CSIR and PAM. This year the PTO will pay $30.06 per square foot for rent. When this cost is multiplied by the total square footage affected by these two subsystems, $6,039,294 per year could be spent better or, in some cases, avoided following full deployment.

During the hearing, you testified in response to a question on the current status of the Office's automation efforts that "we are spending a great deal of money on outside contractors." How much money is being spent on outside contractors?

Answer. The PTO projects expenditures of $53 million in fiscal year 1994 for contractor support to develop and maintain the Automated Patent System. See Attachment 2.

Question 6. As I am sure you are aware, there are a number of private information dissemination companies who have expressed concern about being put out of

business by APS. What are your plans for disseminating the wealth of information contained in the Patent Office?

Answer. The PTO has a long history of working with the private sector in the dissemination of patent and trademark information. A principal mode of addressing our information dissemination mission has been through the "wholesaling" of data in the form of our data base tapes to private sector firms.

This effort has allowed private sector companies to provide value-added services to the public by enhancing and repackaging the data and making search systems available through commercial networks. The Coalition for Patent Information Dissemination, comprised of the largest commercial vendors of patent information calls the PTO's program for the sale of data base magnetic tapes "the most successful, the most far-reaching, the most effective information dissemination program of any government agency—either here or abroad."

The PTO will continue to make its data available and will continue to use the private sector as the primary means of patent and trademark information dissemination. In addition, the PTO will serve the needs of the public, especially the individual or "independent" inventor, by

- Supplying electronic patent search capability at its network of 75 Patent and Trademark Depository Libraries (PTDLs); and
- Providing direct access to its automated systems in its Public Search Rooms (PSRs) located in Arlington VA.

This limited direct, on-line access to text search to PTDLs and the Public Search Rooms will not significantly reduce the demand for services from the private sector. Additionally, this approach allows the PTO to provide search capabilities to all parts of the country. The PTO will conserve valuable resources by effectively using existing infrastructures, such as the INTERNET and the already-in-place facilities at the PTDLs, where trained librarians, numeric search files and electronic search tools are available to the public.

Question 7. On behalf of the administration, you recently signed a treaty with Japan in which you agreed "to introduce" legislation that would change patent terms in the U.S. from "17 years from grant" to "20 years from filing." In return, the Japanese Patent Office would accept patent applications in English.

As you know, I recently introduced legislation, S. 1854, that would establish a fixed 20-year patent term beginning from the date the application is filed.

The bill also provides for the publication of all patent applications after 18 months at the Patent Office.

In your testimony you state that "it may be premature to adopt the 18th month publication proposal until we resolve other issues relevant to this topic."

What are the other issue relevant to this topic?

Answer. Initially, a point of clarification is in order. The document signed by the Commissioners of the Patent and Trademark Office (PTO) and the Japanese Patent Office (JPO) was characterized as a "Mutual Understanding." It was not considered as a treaty by either signatory.

There are many "other issues" that need to be resolved before the PTO adopts an early publication system. For instance, we must address such issues as whether the PTO should publish at 18 months or at some later date; whether publication will be funded through a separate publication fee or through an increase in filing, issue or maintenance fees; what prior art effect the published application will have on pending applications; what time during the examination process will the content of the application be fixed for publication purposes; and what will be the nature of provisional rights granted between publication and grant. In addition to these issues, I believe that, to some degree, our final position on whether to adopt a pre-grant publication system may depend on changes that our trading partners are making in their systems.

Are we the only industrialized country without an 18 month publication rule?

Yes, we are the only industrialized country without an 18 month publication rule.

Question 8. Commissioner Lehman, is the cost to implement 18 month publication one of the reasons for believing it to be premature to move ahead at this time?

Please describe in detail the administrative cost to the Patent Office as a result of adopting an 18 month publication system.

Answer. Cost is one of many reasons that we believe it would be premature to move ahead at this time. However, many of the factors mentioned in the response to Question 7 are also of concern.

The PTO is in the process of developing cost estimates for the adoption of an early publication system. Details are not yet available. We will be pleased to forward this information once we have completed our analysis.

Question 9. As noted in the testimony of I.P.O., during public hearings you held last October at the Patent Office, Dow Chemical testified that they had spent tens of millions of dollars to launch a new product that turned out to be very successful.

However, within one year after launch, another party obtained a U.S. patent on the Dow Chemical product—after the other party had its patent application at the Patent Office for 22 years!

How does this happen? How common is this?

Answer. Average pendency for fiscal year 1993 was 19.5 months. However, some anomalous cases have relatively long pendencies due to delays incident to the examination process. These delays include such things as filing of continuing applications, requests for extensions of time to respond to PTO communications and involvement in an interference proceeding.

A pendency of 22 years is extremely rare. Statistics available for the last quarter of fiscal year 1993 indicate that the pendency distribution for granted applications is greatly concentrated in the 4 to 20 month range. Only 2.3 percent of allowed applications were pending for more than 36 months. (In that period, there were 26,321 allowed applications.) Approximately 27 percent of all pending applications in fiscal year 1993 were continuing applications. The full distribution follows:

PENDENCY STATISTICS FOR ALLOWANCES LAST QUARTER FISCAL YEAR 1993

Months	Percentage
0–4	6.0
4–8	15.4
8–12	24.0
12–16	20.8
16–20	13.6
20–24	8.7
24–28	5.0
28–32	2.7
32–36	1.5
over 36	2.3

Would my legislation prevent this from occurring?

Yes. A twenty-year term measured from filing, as proposed in S. 1854, would have prevented the situation mentioned by Dow Chemical from occurring. Because the patent term proposed in S. 1854 would be measured from filing, not from issuance (as in present practice), no patent would have been granted to Dow's competitor since the term of twenty years from filing would have elapsed prior to grant.

Question 10. Under a 20 year term that begins from date of filing, would you support not counting the period that an inventor is involved in an interference proceeding with another inventor?

Answer. Yes. The PTO supports extending the term of the patent for the period of delay to the extent that the issuance of an original patent is delayed because of a proceeding under section 135(c) of title 35 (interference proceeding). The PTO also supports a similar extension if an application is placed under an order pursuant to section 181 of title 35 (secrecy order). In both cases, the term should not be extended beyond twenty-five years from the filing date.

What is the average period for an interference proceeding?

Answer. The average pendency time for all interferences was about 17 months for fiscal year 1993.

Have you considered any reforms to the interference process?

Answer. The PTO is considering revisions to the interference process. The revisions will streamline the process and address our obligations under the NAFTA and the GATT agreements. Details are not yet available on the nature of the revisions. We will be pleased to keep you informed of these revisions as we develop them.

Question 11. Commissioner Lehman, I understand that you recently held public hearings on the use of the patent system to protect software-related inventions. At those hearings, several witnesses expressed concern over a patent term of 20 years as applied to the software industry.

How does our move to a 20-year patent term square with the concerns of the software industry.

Answer. We believe a twenty-year patent term measured from the application filing date will be well-received by the software industry.

The current patent term allows individuals to use delays incident to the examination process to postpone issuance of a patent until years later when they emerge

like submarines and torpedo the industry that has evolved and developed during those years. Such abuses of the system, which are commonly referred to as "submarine patents," disadvantage the patentee's competitors and the public. A patent term measured twenty years from the application filing date would prevent future abuses of this nature.

In the public hearings concerning patent protection of software-related inventions that we held in January and February of this year, a few individuals suggested that an appropriate patent term for software-related inventions would be between three and five years. The rationale offered by these individuals is that the typical life of a software innovation is one to three years, after which the invention is technologically outdated and not useful.

We do not find their rationale for shortening the patent term persuasive. Recall that the two prerequisites to any infringement suit are that another party must be using the patented invention in a manner that infringes the patent and that the patent holder must be willing to enforce patent rights. If the patented invention is not being used by anyone because technologically superior alternatives exist as the witnesses suggested, obviously there will be no infringement of the patented invention. Furthermore, if technologically superior alternatives exist that make the patent useless the patent holder will not pay the requisite maintenance fees to keep up the patent and the patented invention will fall into the public domain. Thus, a twenty-year from filing patent term will have little impact on the software industry.

Question 12. I appreciate your willingness to work with the Subcommittee on legislation to clarify the role of the Board of Patent Appeals and Interferences. By renaming the Examiners-In-Chief as Judges, I take this to mean that you think the Board should be independent.

Answer. I changed the name of members serving on the Board of Patent Appeals and Interferences from "Examiners-In-Chief" to "Administrative Patent Judges" solely because I thought this change would more accurately reflect the duties and responsibilities of these Board members. The name change in no way changes the job responsibilities of Board members or their role in the decisionmaking process. I believe it is appropriate for the Commissioner, the Deputy and Assistant Commissioners to be members of the Board and to be able to participate in Board decisions.

Do you think the Commissioner and Deputy should be members of the Board or should there be some sort of independent review by the Commissioner of Board decisions?

I intend to introduce legislation on this issue shortly and would appreciate your submitting your views to the Subcommittee.

Answer. The Board is and should remain independent, both in terms of analyzing the law and implementing the Commissioner's rules and general statements of policy. There is a difference of opinion as to whether the independent status of the Board should obligate them to be bound by the Commissioner's rules and general statements of policy. I believe that the public is entitled to expect a consistent application of both. I would support an amendment clarifying the obligation of each Judge on the Board to consistently apply the law and implement the Commissioner's rules and general statements of policy.

I support your efforts at reaching out to the public when developing your positions on legal policy. However, I am concerned that the Office should not be in the business of making law, but rather in implementing the law as written.

Please explain what you mean by "developing legal policy" and how you intend to do this.

Answer. The PTO's responsibility to implement the law as written is strengthened through its participation with the Congress and the Judiciary in the development and application of the law in a way that best protects the interests of U.S. industries and entrepreneurship. The PTO's participation in this process can be accomplished in a number of complementary ways. For example, through our public hearings, the PTO has sought to identify methods by which our practice can be improved. The PTO also participates in the process through the exercise of the Commissioner's authority under 35 U.S.C. §6 to issue rules and general statements of PTO policy, as well as filing *amicus* briefs. Public hearings also bring to our attention changes that may need to be made to the law. These changes, of course, would be brought to the attention of the Congress for action.

Question 13. Do you think the Commissioner needs express authority to issue nonlegislative interpretive rules and general statements of policy on matters of substantive patent law which would be binding on the examiners and the board?

Answer. The Commissioner has the authority under 35 U.S.C. §6 to issue regulations and general statements of policy which are binding on the Examiners. With respect to the binding effect of these interpretive rules and general statements of policy on the Board, it is not as clear. We would support an amendment which clari-

fies the Board's obligation to consistently implement the Commissioner's rules and general statements of policy.

Question 14. Do you favor the concept of the Patent and Trademark Office as a government corporation? If yes, should such a corporation be independent of the Commerce Department?

Answer. I do not favor establishing the PTO as a government corporation. The perceived benefits can be achieved through improvements to the Office already underway. Moreover, as a government corporation, the PTO's role in shaping public policy would be greatly reduced.

Those promoting the conversion of the PTO into a government corporation see the principal advantage as providing operating flexibility, similar to that enjoyed by private businesses. In this regard, it is often argued that a PTO corporation may also be more responsive to user needs and offer more cost-efficient services. I believe that these advantages are being realized through our ongoing efforts to "reinvent" ourselves as an Office and in terms of the relationship with our customers. For example, we have recently completed hearings on the protection of computer software. An important part of these hearings was to learn how the PTO could improve our services to that technical community.

Question 15. What is the role of the Patent and Trademark Office in formulating the Government's policy on copyright matters?

Answer. The mission statement for the PTO from the Department of Commerce provides that the PTO is the lead agency for the formulation of domestic and international intellectual property policy for the Secretary and the Administration, including copyright matters. The staff of the PTO's Office of Legislation and International Affairs includes attorneys who specialize in patent, trademark and copyright law and who provide advice to the Commissioner in their areas of expertise. To provide advice on intellectual property policy matters to the Administration, we work closely with other agencies including the Department's International Trade Administration, the Department of State and the Office of the United States Trade Representative. As well, we maintain a working relationship with the Library of Congress' Copyright Office.

In light of the fact that the Office is completely funded by user fees and does not receive any public monies, do you think it is an appropriate function of the Office to be developing and advising the Administration on copyright policy?

Answer. Because of the continuing economic importance of copyright matters, and the importance of the copyright industries in international trade, I expect the demands for advice on the Administration's copyright policy and support for trade negotiations to grow in the coming years. I believe that it is appropriate to use the Office's budget to ensure that the PTO is in the position to give the Administration the support that it needs in all areas of intellectual property policy, including copyright. Moreover, we have found that to perform our responsibilities in the patent and trademark fora effectively we must get involved in other areas of intellectual property, such as copyright, trade secret and mask works.

Question 16. What portion of patent owners are paying the maintenance fees that are required to keep patents in force? Is maintenance fee income increasing?

Answer. In fiscal year 1993, the portion of patents maintained by payment of the first stage, second stage, and third stage maintenance fees was 79 percent, 55 percent, and 34 percent respectively.

Third stage patent renewals began in fiscal year 1993, so at this time, the data is very limited. However, the PTO expects third stage renewal rates to follow the trend experienced during the initial years of both first and second stage renewals. Both first and second stage renewal rates in subsequent years declined from renewal rates experienced during their initial year. Maintenance fee income is expected to increase in future years due to growth in the number of patents issued by the PTO.

Question 17. What is the status of U.S. efforts to join the Madrid Protocol? Do you anticipate that any remaining problems will be resolved in time to join the Protocol and pass implementing legislation before the end of this session?

Answer. The Administration has postponed requesting the advice and consent of the Senate to accede to the Madrid Protocol because of issues presented in the provisions that give the European Union a vote in addition to the votes of the member states.

Question 18. Special 301 has been a very effective tool to promote improved intellectual property protection. It has spurred the creation of new protection as well as enhanced enforcement. However, concerns have been raised that Special 301 may have been weakened by the new GATT agreement.

Please explain what you believe to be the basis for these claims and how your Office can encourage U.S.T.R. to use Special 301 to the greatest extent allowed under the GATT agreement?

Answer. It is difficult for me to comment on the basis for concerns that Special 301 may have been weakened by the new GATT agreement without hearing these criticisms directly. I can, however, respond to one criticism of the GATT agreement with regard to the Special 301 process that I have heard.

The new GATT agreement increases the variety of goods and services subject to bound tariff limitations and sets lower limits on the tariffs that may be imposed. I believe that this is a positive step toward President Clinton's plan for improving U.S. competitiveness in the international marketplace. Despite the positive limitations on bound tariffs and the significant improvements in the level of protection for all forms of intellectual property guaranteed by the GATT agreement, some critics of the GATT agreement believe that the GATT agreement weakens the use of Special 301 as a means for sanctioning countries because it prevents the United States from imposing tariffs higher than those specified in the agreement.

I do not agree with the assessment that Special 301 will necessarily be weakened by the new GATT agreement. In fact, little has changed in terms of our own law. Certain tariff measures remain available as before. Moreover, we will retain discretion with respect to tariff benefits extended voluntarily. Under the new GATT agreement we could still sanction a country by withdrawing their Generalized System of Preferences (GSP) benefits, or deny benefits under the Caribbean Basin Initiative (CBI) and the Andean Pact Preferences Act (ATPA). Where appropriate we will also continue to apply various forms of pressure, such as linking a satisfactory intellectual property protection regime to negotiation of a bilateral investment treaty or to a trade and investment framework agreement, to approval of aid projects, or to science and technology cooperation. Additionally, I believe that we should be more creative in terms of the remedies we use to ensure that our trading partners adequately and effectively protect intellectual property.

With regard to any other criticisms of Special 301, I would have to defer to the Office of the United States Trade Representative, since questions regarding implementation of the statute fall more within their area of expertise.

Question 19. The Administration has indicated a desire to consider extending NAFTA to include other countries such as Chile, Argentina, or Brazil. Further, Korea and Singapore recently asked for inclusion.

NAFTA standards are generally good, although there are still some key deficiencies in protection.

What role will your Office play in these negotiations and what actions can you take to make sure NAFTA is improved upon when it is extended to other countries.

Answer. We believe that the PTO will continue to participate with the Office of the United States Trade Representative, the Department of State and other agencies in the negotiation of agreements which bear on the protection available abroad for the intellectual property of U.S. interests. The PTO will also continue to aggressively advocate the availability of strong and certain intellectual property protection abroad when participating in the inter-agency process for developing Administration policy to guide such negotiations.

Question 20. As you are well aware, a new intellectual property agreement was negotiated as part of the Uruguay Round. This agreement goes a long way toward providing worldwide intellectual property protection. It falls short, however, in some key areas, such as certain substantive standards and overly-long and discriminatory provisions.

Could you please explain the role of the PTO in these negotiations?

Answer. The PTO played a significant role throughout the negotiations of the agreement on Trade-Related Aspects of Intellectual Property (TRIPs), in the Uruguay Round of Multilateral Trade Negotiations held under the auspices of the General Agreement on Tariffs and Trade (GATT). The PTO has been actively involved in the negotiations since the outset of the TRIPs negotiations in 1986. The U.S. negotiating group has been headed by four different Chief Negotiators, three of which were officials from the Office of the United States Trade Representative (USTR). In 1991, when the third Chief Negotiator joined the House Ways and Means Committee staff, the Assistant Commissioner for External Affairs from the PTO, Michael K. Kirk, replaced him as Chief Negotiator. Mr. Kirk, together with others from the Office of USTR, the International Trade Administration and the PTO, continued the negotiations until the negotiations were successfully completed last December. Throughout the entire process various officials from the PTO supported the efforts of the United States Trade Representative by supplying their legal and technical expertise in the patent, copyright and trademark areas. At present, the PTO is work-

ing with the United States Trade Representative and other agencies on legislation to allow the United States to implement the TRIPs agreement.

Because of the technical expertise necessary to deal with questions related to patents and trademarks do you believe it would be beneficial for your Office to be more involved?

Answer. Because the United States Trade Representative understands and appreciates the legal and technical expertise necessary to deal with questions relating to patent, copyright, trademarks, and other areas of intellectual property, the Office of the United States Trade Representative has been more than willing to take advantage of and rely upon the expertise that the PTO has to offer. Consequently, I believe that it would be difficult for the Office to be more involved than it has been to date.

Question 21. I understand that the National Economic Council is forming a working group to review patent policy. Could you please provide any written information available about this working group and will you please keep my staff apprised of the group's activities. If the meetings are open, please inform the Subcommittee on the date and time of any meetings.

Answer. The National Economic Council has formed a working group, chaired by Bowman Cutter, to review and coordinate the Administration's policy on intellectual property—including patent, copyright and trademark matters. The working group includes representatives from the Council of Economic Advisors, the Office of Science and Technology Policy, the Office of Management and Budget, the Department of the Treasury, the Department of State, the Department of Justice, the Office of the United States Trade Representative and the Department of Commerce. The Group seeks to develop and coordinate positions on matters such as, for example, how to best pursue the United States audiovisual objectives in the post–Uruguay round environment. To date, the group has limited itself to internal policy discussions and has no plans to hold public meetings. However, I shall be pleased to keep the Subcommittee advised of Administration policies adopted as a result of the deliberations of the working group.

Question 22. Your current office space expires in 1996. What are your plans for space once your leases expire? Do you intend to stay in the Crystal City area? Are you still considering building or buying your own building? If so, how do you expect to do this under the existing rules?

Answer. We are currently exploring, along with the Commissioner of GSA's Public Buildings Service, a range of options, including:

- A competitive acquisition of a new site in the Northern Virginia region adjacent to Crystal City as well as the District of Columbia versus our present location;
- A cost comparison of leasing versus purchase (or a lease with an option to purchase); and
- An extension of our existing leases, but at a lower rental rate than we are currently being charged.

Current GSA rules and administration policy permit all of these options. Naturally, we want to choose the option that provides the best space to satisfy our operational needs at the lowest possible cost.

Question 23. Last Congress I introduced legislation, S. 2605, that would harmonize our patent laws with our trading partners subject to the signing of a treaty to that effect. One provision of that Bill would establish prior user rights under a first-to-file system.

Recently, I have had discussions with inventors who support adopting prior user rights under our first-to-invent system. In support of their argument, they cite an American Bar Association Section on Patent, Trademark, and Copyright resolution favoring legislation:

> Providing an *in personam* right of prior non-informing public use to the first inventor who elects to keep his invention a trade secret, and further provides that the patent on the same invention which was independently discovered by a subsequent inventor shall not be held invalid based on the trade secret non-informing public use of the first inventor.

Is it well-settled law that a second inventor who independently invents a process and promptly files a patent will be preferred over a first inventor who maintains the process as a trade secret?

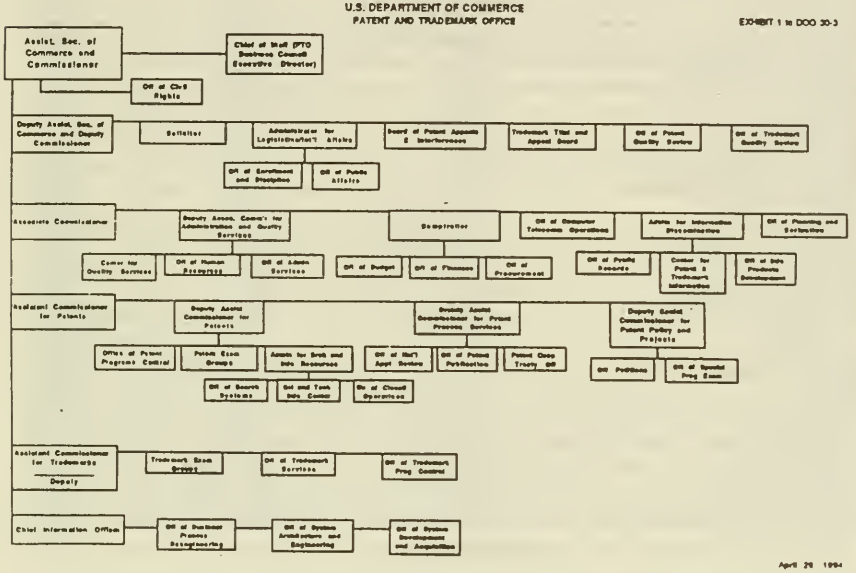
Answer. Yes. In general, a second inventor who has filed a patent application will be preferred over a first inventor who uses the invention as a trade secret user and does not file a patent application on the invention because, under the patent law, an inventor who is willing to disclose his or her invention through the patent proc-

ess has the right to obtain a patent on the invention over a party who has suppressed, abandoned or concealed his or her invention (35 U.S.C. § 102(g)).

What is the Administration's position on adopting a prior user right under a first-to-invent system?

Answer. As we learned during our public hearing on patent law harmonization in October, the issue of whether the U.S. patent system should include a provision on prior user rights is very controversial. We have found this to be true regardless of whether the prior user rights issue is being discussed in the context of a first-to-file system or a first-to-invent system. Due to the unsettled nature of the prior user right issue, we have decided to keep the issue open and not take a position until we can make an informed decision based on public input obtained through Congressional hearings, through PTO public hearings or through other fora.

Attachment #1



Attachment 2

Description	Contractor	Award Date	fiscal year 1994 Plan
Dataware royalties & maint.	Dataware	10/1/93	120.4
RP microfilm	Research Pub	10/1/93	504.7
Trilateral indexing/retrieval SW	EPO	10/1/93	36.1
CD-ROM Mastering In-house Production	NTIS	3/1/94	234.0
CD-ROM Network Royalties	Dataware Tech	10/1/93	50.0
Mastering: Weekly Issue US Patents	TDB	2/1/94	658.9
Royalties for Foreign Data Files-Fees	Trilateral Agree.	1/1/93	50.0
TAF Solbourne Upgrades	TBD	2/1/94	50.0
NTAF Contractor Support	TDB	2/1/94	50.0
External Gateway Development	Nat. Sci. Found	10/1/93	98.0
SMGL Activities, Maintenance	SAIC	10/1/93	200.0
CA-ACF2	Computer Asso	10/1/93	42.0
CA-Dynam TLMS	Computer Asso	10/1/93	30.0
CAT System Support	Robbins-Gioia	10/1/93	526.0
Data Conversion Services	TDB	1/1/94	598.0
IBM Software for AMDAHL	IBM	10/1/93	206.7
Image Data Validation Services	Digicon	10/1/93	462.0
InforMix SW	InforMix	10/1/93	44.0
MDSSC IV&V Services	MDSSC	10/1/93	1,800.0
PAM (Documentation) Contractor	Digicon	12/1/93	706.0
PAM Electronic Filing (EASY)	Compus	12/1/93	1,567.0
PAM Hardware/Software	DOD Sup.M.Con	1/1/94	595.0
PRC Integration Contractor Svcs	PRC	12/1/93	40,609.9
SAS SW Maintenance Renewal	SAS Institute In.	10/1/93	40.7
SETA Contractor	Sci.Ap. (SAIC)	10/1/93	2,025.0
Systems Engineering Support	MITRE	10/1/93	500.0
Amdahl Computer Maintenance	Seven Comp In.	10/1/93	313.3
HW Maintenance	Vion Corp.	10/1/93	220.8
Natural, ADABAS Predict, SW Lic.	SW AG	10/1/93	75.0
PTO Network Management	ICT	12/1/93	500.0
MICS Base	Legent Corp.	10/1/93	48.0
MIM Software	Legent Corp.	10/1/93	30.0
OCR Conversion	TBD	1/1/94	500.0
CASE Productivity Tools	TBD	Jan. 1994	150.0
Automated CM Tools	TBD	Nov. 1993	80.0
CD-publisher upgrade	TBD	Oct. 1993	25.0
TAF Conversion: W/S Upgrade to Prod	TBD	2/1/94	50.0
Total Contractors Costs			53,296.5

RESPONSES TO QUESTIONS SUBMITTED BY SENATOR GRASSLEY

Question. What specific steps have you taken, or do you plan to take, to promote better public dissemination of patent information—particularly automated patent information?

Answer. The U.S. Patent and Trademark Office (PTO) has and will continue to use new automation technology to promote public access to patent information. We have created new information products and services to the public. These include on-line services, CD–ROM products, magnetic tapes, and diskettes. Through on-line and CD–ROM dissemination, information can be searched, viewed, printed and downloaded for further processing. Magnetic tapes and diskettes provide appropriate media for the transport of data to users' systems. A more detailed discussion of these accomplishments follows.

1. ON-LINE SERVICES

Access to the PTO's Automated Patent System (APS) Text Search is available to the public on a pilot basis at 14 Patent and Trademark Depository Libraries (PTDLs) throughout the country. The PTO plans to implement electronic text search capability at all 75 PTDLs as soon as a suitable user fee mechanism is found. Various alternative architectures for accomplishing this are under consideration, including the use of the INTERNET.

APS Text Search is available to the public, for a fee, in the PTO's Public Search Room. The Image Retrieval Facility, located on the PTO's Crystal City campus, allows the public to access the Classified Search and Retrieval (CSIR) System containing images of all U.S. patent documents. The fee for this service has been temporarily suspended while users learn how to use the system.

The PTO's Bulletin Board Service (BBS) allows the public to access and download patent and trademark information files, including information from the Official Gazette, press releases, information product brochures, directories, and statistical reports. Users may dial in from their personal computers, or may connect through INTERNET using the FEDWorld Gateway provided by the National Technical Information Service.

The PTO plans to expand the BBS to the Electronic Information Center (EIC) which will allow direct INTERNET access by the public. The EIC will contain additional information products and services, and is planned for early fiscal year 1995. Through the EIC, the public will be able to obtain information about recent patents and trademarks, and information about PTO-provided products and services.

Information about the PTO's products, services and contacts, such as ordering information and prices, will be available through the Commerce Information Locator Service (CILS), provided to the public on FEDWorld.

2. CD–ROM PRODUCTS

Three products in the CASSIS (Classification and Search Support Information System) series—CASSIS/BIB, CASSIS/CLASS, and CASSIS/ASIGN—provide access to bibliographic, classification and assignment information. ASIST (Additional Support and Information Search Tools) provides electronic copies of manuals and aids to facilitate the use of patent files. These products, which are updated four (ASIGN, ASIST) or six (BIB, CLASS) times per year, may be used free of charge by the public in the PTO's Public Search Room and at PTDLs throughout the country. Since no on-line charges accrue in the use of these products and due to relative ease of production, they provide low-cost, user-friendly alternatives to other systems. These products are also sold to the public as annual subscriptions at affordable prices.

Access to Japanese technology is available to the public at PTDLs through a set of CD–ROMs containing English-language Japanese Patent Abstracts. The information on these discs corresponds to the text file available for searching by PTO examiners on APS.

In March 1994, the PTO produced the first in a series of CD–ROM discs which will contain the full facsimile image of the weekly issue of patents, approximately 2,000 patents per week. This product, called USAPat, will comprise two or three discs each week, and may eventually replace microfilm as the medium of choice for providing image data to the PTDLs. More immediately, this product will be used as a replacement for paper and microfilm sets of patents sent to PTO Exchange Partners throughout the world.

In cooperation with our Trilateral Partners, the European Patent Office and the Japanese Patent Office, the PTO is developing CD–ROM software under a project called MIMOSA (Mixed-Mode Software Application). This software will provide a common user interface for CD–ROM products made by the Trilateral partners. MI-

MOSA will also be made available to other patent offices around the world. As such, we believe it will become the standard for patent information products. The software allows on-the-fly photocomposition of text and images (using the Standard Generalized Mark-up Language or SGML) to enhance display and improve the amount of data which can be placed on the disc. The Trilateral Partners are discussing the creation of a CD–ROM product containing bibliographic text and a representative drawing, based on the First Page Data Base, an English language data base of the patent documents published by Europe, Japan and the United States over the past 20 years.

3. MAGNETIC TAPES AND DISKETTES

The PTO continues to make magnetic tape copies of data base files available—including patent and trademark text and image files—at prices which enable value-added resellers to process and repackage the information in support of the varied needs of the public at large.

As the needs and capabilities of the public change from a paper environment to more sophisticated, automated systems, the PTO is able to offer electronic copies—tape or diskette—of many of its products. Statistical reports, for example, which were once provided only in paper form, can now be provided electronically, enabling users to import the data to their local systems for further manipulation and analysis. The PTO offers copies of the *Manual of Patent Examining Procedure* in electronic form, allowing hundreds of patent attorneys to maintain copies on their local systems for searching and incorporation into correspondence with the PTO.

Senator DECONCINI. Thank you, Commissioner.

As you know, I expressed my view that I'm very disappointed that the Administration was not able to achieve some harmonization in the world patent laws.

What is the likelihood in your judgment that true harmonization can be achieved during the first Clinton Administration?

Mr. LEHMAN. Well, Mr. Chairman, when I first took a look at this issue, I was pretty depressed, frankly. I thought it was going to take a long time, and, at best, I could maybe only set in motion the forces that would lead to true harmonization. I'm glad you used that term too— harmonization—because I define harmonization as an international patent system basically where an American can file a patent application at our PTO and get timely approval of that patent, issuance of a patent, and then very quickly and with a minimal amount of cost and bureaucratic effort get worldwide protection. And I thought that was going to take a long time.

But I have to tell you that as a result of the discussions that we've had with our Japanese counterparts and with some European counterparts, I am more optimistic than I was at the very beginning, and I think that there is a very distinct possibility that during this Clinton Administration that we will have effective patent harmonization well on the road to accomplishment.

Senator DECONCINI. Well, I'm encouraged by that, Mr. Lehman, and I truly hope that's the case.

Under the 1990 Budget Act, the patent office became a fully user fee funded agency. Those user fees were placed in a fund at the Treasury Department. Unfortunately, over the last couple of years Congress has not appropriated to the patent office all of those user fees. The result is that patent fees are being used to fund other functions of our Federal Government.

I have argued against this in appropriations meetings, but I was never supported by the Bush Administration nor the Clinton Administration last year.

Do you have a proposal to remedy this, and do you know if the Administration is likely to change, and have you attempted to change them?

Mr. LEHMAN. Well, the answer to all three of those questions is, yes, Mr. Chairman, and let me say that you're to be given a great deal of credit for your mastery of the arcane principles of Government finance that you have to understand to be on the Appropriations Committee. I'm having to go through that myself right now, and we have different words that have a lot of meaning.

In the past, the Patent and Trademark Office user fee revenue under the surcharge have been considered off-setting receipts by the Office of Budget and Management, and, because of that, the Appropriations Committees have been able to disperse them for other purposes other than our needs.

I will say—and I apologize when we first came in and we had a short period of time—I wasn't even there for the fiscal year 1994 appropriation—but now that we have taken a very close look at this, Secretary Brown and Director Panetta at the Office of Management and Budget with the support of the President have decided to move our revenue collections into a different category, which is known as off-setting collections.

This category, given the way the arcane rules of Government finance work, is a nondiscretionary category, and now that it's been moved into that category—assuming that the Appropriations Committee goes along with it, and I hope they will, and I hope you'll help us with that—those surcharge fees will now go completely to supporting our efforts in the Patent and Trademark Office. And there's nothing I can say—I think of all of the things that I have to tell you this morning, which is more important than this:

I mentioned customer service. Our applicants in our office, which is fully fee-funded, have a right to see that their fees go to support quality patent examination, and not only is that fair to them, but if we intend to have the kind of high wage, high tech, high growth economy that the President very much envisions for us, we have to have patents that are issued by our office that you can take to the bank and that you know will hold up in court, and that other people dealing in business know the full scope and the extent of the patents and know that they've been well-examined. So that they know where they can operate outside the scope of that patent.

That means that we're going to have to devote a lot more effort to our patent examining operation. I know you're going to hear from—Professor Wegner gave me a little advance preview of something he's going to give you where he indicates that our patent pendency goals aren't what they appear to be, that we have—particularly, in some of the high technology areas we don't meet the 18-month goal that we meet overall.

He's absolutely right—we need to get some of these matters under control, and we need the revenue that our fee payers are paying to do that. So this is really probably the most important thing of all of the things that we'll be working on together, and I hope we have it now under control.

Senator DECONCINI. So you have an excess income over your current expenses. Is that correct?

Mr. LEHMAN. Well, we do not have the capacity of spending more than we take in. In fact, I mean, we're very unusual if not unique in the whole Federal Government in that regard.

So the answer is, yes, we do have an access, but that's because we already know as a result of Appropriations Committee action that we are not going to have—last year I think it was approximately $20 million—was not going to have available to us. So we simply had to adjust our expenses accordingly. That means we had to take $20 million out of examining, and I don't know exactly where it's gone—maybe somewhere into the ether of the Federal Government.

Senator DECONCINI. What is the amount as income from fees versus your present operating budget? Do you know?

Mr. LEHMAN. This year it's approximately $20 million. If this trend were to continue, it probably be at least $30 million, I think, next year, and that's real money that we could really use to provide a much higher quality examination system.

Senator DECONCINI. Or you could suggest reducing the fee?

Mr. LEHMAN. Or reduce the fee.

I will say this—our fees are not unreasonable. We have the cheapest patent examining fees in the world. In fact, this is one of—when we speak of harmonization, you know that the European Patent Office charges $88,000 for the life of a patent if you want country designation, all of the country, as compared to $7,500 in our patent office.

But I think that what we do need is we need to see— we've had a series of public hearings where we've been hearing from our customers. We've heard from probably about 300 of them already or more, and I know that we have some problems, some problems that you may want to ask me some questions about later on, and we have got to fix those problems. And this fee revenue is very important to that.

Senator DECONCINI. Do you anticipate an increase to fees in 1995?

Mr. LEHMAN. At the present time, I think that we will. On the patent side, we will increase and take advantage of the right to increase the fees to accommodate the cost of the CPI Index. On the trademark side, I don't expect to do that.

Let me say that I am committed to improving quality, and if the Appropriations Committee does not go along with the Administration's proposal to give us all of our fee revenue, then I think we'll have to increase fees. If we're going to be subsidizing the rest of the Government, then we can do that. But if we're going to provide them—it doesn't do much good to charge someone a $7,500 fee and then give them a worthless product at the end.

Senator DECONCINI. If you get all of the income and there is no appropriation restriction, will you then not raise the fee in 1995?

Mr. LEHMAN. We intend to increase the fee according to the CPI Index. We do not intend to seek any additional increase, and last year we didn't increase it at all.

Senator DECONCINI. So you will increase the 1995 fee by CPI regardless of what your appropriations is?

Mr. LEHMAN. That's correct, yes, and I think we will need to go further than that if the Appropriations Committee siphons off our money.

Senator DECONCINI. Aren't you concerned, Mr. Commissioner, that the Appropriations Committee might bar you from going further?

Mr. LEHMAN. Well, if they do, I am concerned about it. But if they do, then we're going to have a problem in the quality of what we do, and I would like to think that they would agree, I think, with probably you, and me, and certainly the Administration that it is extremely important that we have high quality patent examination in the United States.

As I said, it really doesn't do any good to have a second rate patent office. If you issue patents that really are not quality patents, then you reach a point where you might as well not issue them at all.

Senator DECONCINI. Nobody disputes that, I don't think.

As you are well aware, implementation of the automated patent system has been an utmost concern of Congress since it was initiated in 1983. To date, some $500 million has been spent on automating the office and another $500 million is expected to be spent by the year 2002.

When we met in our office last month, you stated that you think the current state of the automated patent system is a mess. What do you see as a significant problem, and what's the solution, and, I'm afraid to ask, how much more money is it going to take?

Mr. LEHMAN. Well, actually, Mr. Chairman, I'm hoping it will cost less money.

Senator DECONCINI. Less than the $500 million projected between now and the year 2002?

Mr. LEHMAN. Very possibly. I do think we've had a lot of problems. I don't think it's been a complete disaster. We are making progress. We already have the automated patent search system in operation for four examining groups—fully. All patent examiners have fully automated text search. We have a public search room facility where the public can take advantage of this, and by fiscal year 1996 our entire Patent and Trademark Office search system will be fully automated. So we have made progress.

However, in my view—and, by the way, this is a perfect illustration of the great advantage of our bifurcated system of government where you've got Congressional oversight, and you've got the General Accounting Office and Congress looking over our shoulder because one of the first things that I had to do was to focus on this because of the GAO study that you initiated. And we've had a number of changes, a number of personnel changes, we're reorganizing.

And it is my view, on the basis of what I know right now, that I think we have a lot of duplication of effort. You know, we are spending a great deal of money on outside contractors. We have 320 people on our staff that are also involved in automation, and in terms of providing the resources that we need in the Patent and Trademark Office, to provide quality examination, to give people a patent that they can take to the bank, there are three areas where I think that we can look for that revenue:

One is to get back all of the patent surcharge money.

The other is that I think we're paying too much money in rent. We're paying at least $10 a square foot over the market right now that is basically being used to subsidize the GSA Building Fund, I gather. That's an area I would like to work on. That's probably $10 million right there that we could spend on applications.

And then, finally, I think in the information systems area I think that we clearly have—now that we're really getting into this and I'm really getting into it—we have a lot of duplication of effort, and I think if we bring that under control, we could have a better automated system— maybe cheaper.

Senator DECONCINI. As you know, the past Commissioner was criticized for interfering in the decision making process of the Board of Patent Appeals and perhaps packing the panel.

What assurance can you give this subcommittee that this is not occurring under your tenure?

Mr. LEHMAN. Well, Mr. Chairman, this really raises a larger generic issue I think, which I think we're really going right to the heart of, and that has to do with how you make legal policy in the Patent and Trademark Office.

One of the things that—and this goes to the quality issue—it's very hard to issue quality patents if different parts of the Patent and Trademark Office have a different idea of what the patent law is, what the law of novelty and nonobviousness is. And, obviously, there are lots of day to day nuisances in that area that you can't possible solve with legislation. They have to be solved on administrative level.

In fact, one of the things that I discovered is that we have 16 different examining groups, and I think that we have different ideas about what the patent laws are in each one of those 16 different examining groups—much less in the Board of Patent Appeals and Interferences, and in the Solicitor's Office, and the Office of Legislation and International Affairs.

And that's one of the reasons that in our reorganization we are going to put under the deputy commissioner all of the policy functions—that is, the Office of Legislation and International Affairs, the Solicitor's Office, the Board of Appeals and Interferences, and all of the legal policy making. And the idea behind that is that we'll all pull together and develop a common legal policy that the Commissioner will enunciate so that we'll all be singing from the same song sheet. And in developing that policy we're not going to do it in what I would call a kind of star chamber fashion, which has happened before where a few people when a decision comes up, sit around in the patent commissioner's office and then decide what to do. We're going to reach out to the public. We've already had three public hearings, and we've had hundreds of people that have testified about what they think about— we've focused on patent harmonization, we've focused on the area of computer software technology, we'll be focusing on other areas so that we will be developing legal policies that everyone will understand, that will be enunciated on a blanket basis by the Commissioner. And, when we do that, I don't think we're going to have this kind of a problem that we had before.

I will say this, however. I think that—you know, we've gotten along pretty well for the last several decades. We haven't had too

many of these kinds of problems—I think you're referring to the Alappat case where we did have a problem. I do think that when push comes to shove, since the Commissioner is a member of the Board, that the statute is a little unclear as to how that's to be handled.

Now, as I've said, we've gotten along for several decades up until quite recently without any problems. I think when we reorganize our policy operation, we're probably unlikely to have problems in the future. But if that's something that you would be interested in clarifying legislatively, I would certainly be willing to work with you on it.

Senator DECONCINI. Well, I would, and I think there should be a careful review of the status of the chairman and the vice-chairman of the Board. Can't that position be filled by sitting members? I think that's a question that needs to be addressed, and I hope that you will do that.

Let me just give you an opportunity for the record, if you want to, to supply us with more details on the consolidated office space and the problems that you have there.

I guess what I would like to know is do you think that you could get comparable space, comparable location, for considerably less money if you were out on your own?

Mr. LEHMAN. There is absolutely no question about it. You know, about a month ago I read in The Washington Post Monday Business Section that prime office space in Northern Virginia was going for $15 to $18 a square foot, and less than prime office space was going for a lot less than that.

We're paying about $30 a square foot to GSA right now, and that amounts to about $40 million a year. That is not pocket change and——

Senator DECONCINI. What do you get for that that you would not get from paying $15 or $16 a square foot?

Mr. LEHMAN. Basically, what's happening—the way the system currently works, Mr. Chairman, is that we pay a rate which bears no relationship to the market. And, in fact, the U.S. Government is not paying $30 a square foot for our space. GSA pays the rent, then collects money from us. And I think that when you're talking about taxpayer funded agencies—you know, this gets into the whole reinventing government question and how we might reinvent GSA, and so on, and I'm sure a lot of work needs to be done there—but when you're dealing with taxpayer funded agencies, it certainly may be appropriate to expect part of the tax revenue to go into a building fund, for example, that GSA may be developing.

But when we're talking about a user fee funded agency as we are, I think it's inappropriate for us to be funding, you know, a new Justice Department building or something else with that extra, at least, $10 to $15 a square foot that we're paying.

Senator DECONCINI. Thank you, Commissioner. I do have further questions, but I want to get on to our other witnesses. We'll submit them, if you would be so kind to answer them for the record for us.

Thank you, Mr. Commissioner.

Mr. LEHMAN. Thank you very much, Mr. Chairman, and we'll be happy to supply you with any information that you or your staff may need.

Senator DECONCINI. Thank you, sir.

Our next panel is Professor Harold Wegner, The National Law Center, George Washington University; Gary Griswold, vice president of Intellectual Property Owners, Inc.; Gary Newtson, president of American Intellectual Property Law Association; and Richard Berman, president of the International Trademark Association. Gentlemen, please sit down and we'll be with you in just a moment.

Thank you, gentlemen.

Professor Wegner, we'll start with you. If you would summarize your statement.

STATEMENT OF MR. HAROLD C. WEGNER, THE NATIONAL LAW CENTER, THE GEORGE WASHINGTON UNIVERSITY, WASHINGTON, DC

Mr. WEGNER. Thank you, Senator.

With your permission, I would like to just answer some questions based upon what I've heard Assistant Secretary Lehman has said. And, first, I would like to congratulate you on the past 7 years. I think under your chairmanship we've made more progress toward what Assistant Secretary Lehman calls true harmonization and what we said in our testimony 2 years ago before your committee of patent work sharing. This is the goal we should all seek, and I appreciate personally your support, and I know the patent community at large appreciates the support and leadership you've provided.

Senator DECONCINI. Thank you.

Mr. WEGNER. We have in this bill, S. 1854, a 20-year term, and it's now become so noncontroversial I won't say a thing about it. I think it's to your great credit that we've reached this consensus view, and there is nothing more to say about a 20-year term. An 18-month publication is more critical.

There are really three benefits that we get from 18-month publication:

First, we need 18-month publication now because at 18 months from filing American industry—that is, American innovators, individual investors—should get the latest technology from all over the world. We would get with an 18-month publication prompt disclosure of Japanese inventions in English, American inventions in English.

Today, the rest of the world gets an 18-month publication. Japanese get English language text of American inventions, Japanese inventions, and other inventions. I think Mr. Griswold's testimony summarizes this point. I think this is now well accepted, and Assistant Secretary Lehman has supported this proposal.

The second reason we need 18-month publication is business certainty. Imagine if we had real estate titles that were recorded and kept secret for 10 years. How would you make investments if you didn't know if you had title security? What if we had FCC statements that were kept secret for 10 years and then given to the public? What purpose would these statements be?

We need to see the patent claims at 18 months so that businessmen can invest. If I'm a biotech company, I need to know am I infringing on someone else's patent?

Now there is a third, more sophisticated reason, and that is what I would call the publication dividend. We would gain sunshine prosecution, sunshine agency practice. For too long we have a CIA-like mentality of secrecy. I'm not talking about the top levels of the patent office. At the assistant secretary's level, it's fine. At the lowest level, the patent examiners, are excellent, high quality people. I'm talking about the middle bureaucracy.

There is so much nonsense that goes on in the bureaucracy, yet, we can only see this anecdotally, as each of us experiences cases with the patent office. We need a bright spotlight, sunshine, to pierce this veil.

The testimony prepared for the assistant secretary today, he referred earlier to my chart, patent pendency. We've played this game for a generation. To the generation we would say, now, here we have an 18-month pendency goal, and we have 19.5 month's pendency. That's great, isn't it? And that's bunk.

We have a net pendency in mufflers and internal combustion engines that I chose for a comparison because Mr. Newtson comes out of Chrysler Corporation, and he can explain these technologies.

[Laughter.]

Mr. WEGNER. We beat the 18-month pendency there; biotech, 60 months.

Now this is based upon a small sample that I did last night, based upon last week's issue of the Official Gazette, but it's consistent with the General Accounting Office survey that was done for Representative White several years ago.

The sunshine that will pierce the veil of the patent office is absolutely essential, and then we can make real savings. And I applaud the attitude of assistant secretary Lehman to get into these problems. He recognizes that the problems exist. He's the first Commissioner that we've had who's willing to tackle these problems.

Now I would like to talk a minute, if I may, about the Board packing. I think the problem is bigger than the Assistant Secretary mentioned. I'm in general agreement with the Assistant Secretary in most of the plans that he's taken.

Now I understand his present undertaking to reform the Board is still in process. He still has an open mind on this problem. I think it's though absolutely wrong for the Board of Appeals to be under the deputy commissioner. It's absolutely wrong for the board to be directed by the patent office.

The Board is a quasi-judicial body, the intermediate link between the patent office and the United States Court of Appeals for the Federal Circuit. This Board must be given its total freedom and independence.

Now the Commissioner is absolutely right that we must have a uniform policy. There's been negligence in the middle ranks of the patent office over the past 5 years or so in its failure to give guidance. It has a policy arm called the Manual of Patent Examining Procedure that has been atrociously edited, it has failed to provide the guidance, it's within the discretion of the Assistant Secretary to pour more resources into this manual, it's his obligation. He rec-

ognizes this to tie the 16 group directors together, put them together, and get them to work on the same page. But it's not the Board of Appeals job. That should be an independent quasi-judicial body.

With that, I will submit for any questions or any further comments that you may have.

[The prepared statement of Mr. Wegner follows:]

PREPARED STATEMENT OF HAROLD C. WEGNER

Thank you for permitting me to testify. I am a Professor of Law and the Director of the Intellectual Property Program at George Washington University and also the Director of George Washington University's patent research institute, the Dean Dinwoodey Center for Intellectual Property Studies. I am pleased to share my personal views on the *Patent Term and Publication Reform Act of 1994,* S. 1854, that could:

- *even the patent publication playing field* to permit American inventors to gain English language versions of key Japanese, European and American technology by automatic publication at 18 months—just as Japanese inventors for more than twenty years have obtained Japanese language versions of American, Japanese and other inventions from their home patent office;
- *permit early filing dates for inventors* as part of a provisional priority filing system—one already available in Japan and elsewhere, but not so far in the United States;
- *provide "sunshine patent prosecution,* permitting industry to know the exact status of competitors' patent claims, to permit designing around pending applications and to move into areas surrendered by patent applicants during prosecution (as opposed to today's secrecy-until-grant system);
- *eliminate "submarine patenting"* that heretofore has been a patent tax on innovation without public policy benefit;
- *permit routine accelerated examination* in biotechnology and other key areas of technology through reallocation of resources; and
- *permit patent examination "piggybacking",* a free-riding off the parallel European Patent Office examination at enormous taxpayer savings.

Enactment into law of the Patent Term and Publication Reform Act of 1994 would represent the single most important procedural patent reform in more than fifty years. The impact on the U.S. Patent and Trademark Office ("PTO") would include opening the pathway toward a "Patent Worksharing Treaty" and ultimately taxpayer savings on the order of a billion dollars over the next decade; even greater benefits would be available to industry.

Senator DeConcini, you and your Senate colleagues, along with Chairman William Hughes on the House side, deserve great credit for crafting and leading on this important legislation. I am also very pleased with the constructive and positive movement for reform manifested by Assistant Secretary Bruce A. Lehman, who in parallel has pushed for bilateral reforms with his counterpart in Tokyo, the Hon. Wataru Asou. Their historic agreement of January 20, 1994, to exchange a twenty year American patent term for English as a Japanese filing language parallels your efforts today, moving the patent world closer to the day where English will be the universal patent language.

There has been unprecedented interaction between government and the patent community during this term of Congress. In the academic community, we at George Washington University have been honored to have such well informed participation from government leaders at academic conferences we have sponsored. Senator DeConcini, on behalf of my Dean, Jack Harlan Friedenthal, I take this opportunity to thank both you, Mr. Lehman and Congressman Hughes for the personal participation at several sessions at George Washington University and Airlie, Virginia, involving the Assistant Secretary as well as the Senate Majority Counsel and House Chief Counsel in considering and debating the issues under consideration today.

THE TWENTY YEAR PATENT TERM: DEALING WITH GEORGE SELDEN JUST A CENTURY TOO LATE

Who was George Selden and why is he important to the creation of a patent term capped at twenty years from the filing date? George Selden, a turn of the century Rochester patent attorney, is perhaps the most infamous patent pirate, the one who pioneered what is today known as the "submarine patent". A submarine patent is

one that is granted only many years after filing, first sitting dormant as a secret, pending patent application. The "submarine" may be little more than a paper conception of a new area of technology; the "inventor", the submarine pilot, maintains the secrecy and pendency of the patent application for many years, waiting for an industry to first develop. Then the submarine surfaces, perhaps ten or twenty or more years after filing. The public has not benefited from this secret disclosure. All of a sudden, the patent is in the open, and then the seventeen year patent term commences.

George Selden had the bright idea of a gasoline driven vehicle, little more than a rudimentary concept. He filed his patent application in 1879, long before the commercial car industry developed. Sixteen years later—in 1895—Selden's patent submarine surfaced: The patent was granted to start a patent monopoly to run until 1 912, some thirty-three years after his original 1879 filing. By this time, cars were running through the streets of Manhattan. Selden created a patent licensing group to exploit his patent and to attempt to dominate the automobile industry through the early part of this century. In the end, thirty-two years after filing with just one year left on the patent, the Second Circuit in New York invoked its equity powers to bar a broad interpretation to Selden's patent, saving Henry Ford from patent infringement.

Clearly, there are some opponents to the twenty year term. Patent pirate successors to George Selden surely will oppose the twenty year term. Precisely, this is a reason for such a term. Some in the regulated chemical and biotechnology industries are likely to oppose the bill because today there is a *de facto* extension of many years that is obtained by virtue of lengthy patent interferences that delay the grant of patents. To the extent that a loophole is created for patent extension based upon patent interferences, alone, then such a loophole would *discourage* early settlement of patent interferences. This is a bad idea. (If an industry is short-changed because of regulatory delays, the better approach is to have industry-specific patent extension legislation that balances the interests of the original patent holder with the rights of competitors to enter the marketplace as soon as possible after expiration of the patent term.)

From an international competitiveness point of view, the submarine patent strategy works only domestically, because a foreign patent application is capped at a term twenty years from filing, and the surprise of secrecy is lost due to 18 month automatic publication. The only way to practice submarine patent piracy today is to prey exclusively on the American market, to the competitive disadvantage of our nation's manufacturing industries.

The twenty year term will also stimulate American competitiveness in the global marketplace. If American patent terms last "forever", then at the end of twenty years there is free competition in Japan, Europe and everywhere else *except* the United States. With Japanese and European patents having expired, competition in a hot, just off-patent product flourishes abroad. American manufacturers cannot enter the marketplace until submarine patents expire. By then, a post-expiration manufacturing industry is already established in Japan or Europe or elsewhere, with American industry blocked by the continued presence of the patent. It may be too late to establish American competition when the U.S. patent expires. How anti-competitive.

Congress recognized the debilitating effects of patents that survive only in America when their foreign counterparts have expired: 124 years ago in his landmark opinion in *Mushet's* Case, Commissioner Fisher reaffirmed the strong public policy against late-expiring U.S. patents. Mr. Fisher noted that at the time English steel manufacturers exported 100,000 tons of steel railroad iron to America, ten times the 10,000 ton domestic manufacture. To permit a U.S. patent, *alone,* to be maintained to dominate this manufacture, the situation would be compounded: "If, now, when [the English patents have expired and] are free to all English manufactures, the American manufacturer must pay a royalty for [making steel], he is immediately placed at a disadvantage as compared with his foreign competitor * * *." Commissioner Fisher's message from nearly 125 years ago is much more potent today, when global overnight shipping is a reality and as we further evolve into a commercial global village. We must cap U.S. patent terms at the international norm of twenty years from filing, or else we will force industries offshore in patent free zones at the expiration of foreign patents; if the U.S. patent expires five or more years later than the foreign counterparts, thriving industries will have been established offshore to serve global markets, including our own. How anti-competitive. How anti-American.

EARLY FILING DATES

The *Patent Term and Publication Reform Act of 1994* also includes a provisional application system. Patent applicants will be able to file quickly, cheaply and without major formalities to prove a date of invention at the PTO. It is critically important for individual Americans to have inexpensive and ready access to a system of early filing. With such a system, the inventor can "stamp in" a date with the PTO, inexpensively and without bells and whistles and other formalisms that today choke all patent applicants. The individual inventor will be able to file "today" and then "tomorrow" show his or her invention to potential licensees, financial backers and others. The provisional application is a prophylactic against the recipient of the information filing its own application as the first to file. (Then, one year later, he or she must bite the bullet and put together the "real" patent application.)

The rest of the world already has a provisional filing system in place. Europeans and Japanese inventors file quickly with their home patent offices. The first filing date anywhere in the world establishes the invention date for all of the world but the United States (and the Philippines). Thus, the American who files in Washington, D.C. only after his or her counterpart in Japan reaches Tokyo will lose all patent rights in Europe, Japan and every other major country of the world, except the United States. And, except for 30 or so "first inventors" in the United States who win a PTO administrative priority contest known as a patent interference (out of roughly 160,000 patent applications), being "first to file" *is* to be the legally first inventor.

While the *Patent Term and Publication Reform Act of 1994* is harmonization-neutral, we must recognize that as a policy matter we should permit Americans the earliest filing dates to level the international patent playing field, to permit Americans a better chance to dominate global markets. Even one single new product can be of great importance in our trade balances. An individual drug may generate one billion dollars in domestic sales, each year. Whether that drug is foreign-owned or a domestic drug is manifestly of vital importance. The domestic market is the tip of the global iceberg: It is just as important that we facilitate American ownership of Japanese and European patent rights to improve our trade balance and create domestic manufacturing jobs. California's biotechnology success story, Amgen, now sells roughly $500,000,000.00 per year of its bio-produced erythropoietin. We should do everything possible to make sure that American innovation will have a solid patent beachhead in Japan and Europe, so that global profits will increase for American industry and more domestic manufacturing jobs will result. If we are ever to level out the cost of health care in the United States, it is imperative that we provide the strongest possible *foreign* patent rights for American industries, so that they may make a larger share of their income from such *foreign* sales.

THE EIGHTEEN MONTH PUBLICATION

Perhaps even more important for American competitiveness is the 18 month publication introduced in the *Patent Term and Publication Reform Act of 1994.* I am pleased to see your strong leadership for this proposal that is in the *unilateral* interest of American industry. Today, major inventions are filed at least in triplicate, a European, Japanese and an American patent application. Each application is necessary, as a U.S. patent alone would donate the American's invention to Europeans and Japanese to use everywhere outside the United States. It should be a vital national interest that we have patents granted to American nationals on a global basis. This provides a patent beachhead for the domination of world markets for the better American mousetrap of tomorrow.

The rest of the world publishes at 18 months. Thus, the Japanese scientist or engineer reads about the hot developments of the day in native Japanese language, including the best from America, Germany and Japan. Larger American corporations with subsidiaries in Japan and with pocketbooks to pay for translations get the news a bit later in the form of English translations that finally reach our shores. The individual inventor without deep pocketbooks is left in the lurch. After some time, brief and not completely satisfactory abstract services become available, a late and poor second choice to an immediate full text English publication at 18 months.

Shifting America to the 18 month publication system will immediately put American innovators on a par with their counterparts in Japan and Europe. Immediately at 18 months from filing, American innovators will get English language access to the latest inventions from Japan and all over the world—if anyone files a U.S. patent application it will be published at 18 months.

Let's move quickly ahead. Let's put American innovators on a par with their Japanese and European counterparts. Let's level the patent playing field.

The PTO today is choked with patent applications. It seeks to maintain an average pendency of 18 months for patent applications, but long ago this became an illusory goal for key technologies. The *net* pendency of patent applications in most *important* biotechnology areas is atrocious. The previous Administration played games to mask the gross backlogs in this area—even to the point of quickly transferring out the aged patent applications to non-biotechnology groups to improve statistics. For certain key technologies from the time of the first priority filing to the grant of the biotechnology patent in the key areas is more likely thirty to forty or more months as opposed to the goal of 18 months. *The PTO should first identify the critical industries of great importance to American competitiveness and marsh all its resources to better serve these areas. Greater examination manpower should be promptly shifted to these areas to improve quality and service to the patent community.*

But, there is no free lunch. We cannot look for government handouts or subsidies. Whether the fault lies with a less than optimum patent lobbying effort over the years or elsewhere, the reality of the day is that there is no money to be scraped up for helping key technologies. The answer lies in the combination of 18 month publication and twenty year term. No longer is there any need for routine early grant of patents to disseminate patent information; the dissemination is automatic, thanks to 1 8 month publication. There's no problem with a slower routine examination because there's now a twenty year cap on patent term from the filing date.

The Assistant Secretary should prioritize industries of interest, and permit slower examination on a voluntary basis for the non-critical industries.

Ironically, while pendency must be shortened in biotechnology, pendency could easily and without detriment be permitted to lag in other areas. If patents only form part of an industry-wide pool that can be sampled at will by the pool members, then there is no incentive for early examination. If anything, early examination simply and needlessly adds legal fees to the budgets of pool industries.

For example, the automotive industry early in this century prided itself on patent pools where everyone shared the patent rights of everyone else. The pro-pooling mentality exists today. This is manifested by the terrible performance of at least one of the top three American auto makers in Japan: If an American high technology company virtually *abandons* its patent position in Japan through gross nonfiling of patent applications, this is a total surrender of any patent beachhead to gain a foothold in the Japanese market. Conversely, the record of the Japanese automotive industry is hardly one of use of the patent system - other than to burden the U.S. system with hundreds of unnecessary patent applications per year.

For the automotive industry, it is therefore clear that with a propooling, defensive attitude that is antithetical to the proper use of the patent system, virtually *no* examination is important at all. The automotive industry is only one example where American innovation receives no benefit from the patent system. (The fault may be not with the system but the industry.) Some industries have long ago been relegated to overseas competition, with televisions, VCR's, microwave ovens and other examples of Asian dominance promptly coming to mind. Is there any incentive for the prompt examination of cases in these fields? Is there any reason why the American manufacturing community should care *which* foreign competitor supplies the American consumer with a new microwave oven?

Even in the biotechnology field, early examination is necessary only in a minority of cases. For example, a hot high tech firm in Phoenix may have, say, ten patent applications on file for a new Biowidget, and has chosen one product protected by only one of those patent applications for commercialization. For this one in ten case, earliest examination is *necessary*. But, the other nine are better put on hold: The company itself would prefer to do so, to save its resources, to focus its attention on the one in ten case that is important.

Examination on demand within a reasonable period of, say, 24 to 30 months, would operate in the interests of everyone. If the patent applicant could perform his or her own triage to focus on important cases, then there would be plenty of manpower to examine that one in ten case at the earliest date. The other cases would be taken up for examination only at 24 or 30 months from first filing.

The win-win situation is clear. It is self-evident that the patent applicant wins by voluntary triage. The PTO also wins, because the PTO can routinely piggyback its examination off a counterpart European examination. The savings can be dramatic. For example, today, the patent application in the U.S. is taken up before the European counterpart. A full examination is undertaken. Later, the more thorough European search at the Hague takes place. It's much more thorough as Examiners at the Hague are given diplomatic status, making the job one of highest distinction and salary; the Hague Examiners are fluent in several languages; and each Exam-

iner is given a much longer time per case to examine than his or her equally bright but often overwhelmed American counterpart. The Hague search results often lead to a *de novo* second examination in the United States keyed to the information from the Hague. What a waste of resources.

Instead, since the European search takes place at 1 8 months from filing, keying routine examination to 24 or 30 months from filing largely *eliminates* the need for an American search: Rather, the American examiner is able to piggyback off the completed European search, getting the results right in the first instance, and saving a tremendous amount of time.

Piggybacking is not universal. Only about sixty percent of American patent applications are American origin with foreign counterparts or of foreign origin. Only these cases would be subject to piggybacking.

Nevertheless, large savings are self-evident if, say, 50,000 applications per year could be piggybacked. We also could place a greater reliance on European search facilities, and reduce the tremendous expenditure for a separate, parallel, automated U.S. search system.

To achieve the full savings that are possible, however, we must move to the next step of patent worksharing. In my testimony before your subcommittee two years ago; we discussed the "Patent Worksharing Treaty" as a harmonization dividend. Patent harmonization is presently on hold. We must in the end get back on the harmonization track if we are to achieve the real savings for government that are possible. The government savings are but the tip of the iceberg. A single invention in the pharmaceutical field can mean a billion dollars in sales for one product alone in just one year. In biotechnology, we have the $500,000,000 Amgen erythropoietin success story. A billion dollars every two years from domestic sales alone. With patent harmonization, we will better secure foreign rights of comparable worth for American innovators. Only-with patent harmonization and a "Patent Worksharing Treaty" will we achieve the level playing field to permit American innovators in the high tech industries to achieve the commercial greatness to match their scientific merit.

Thank you for giving me this opportunity to share my views on this most important patent legislation.

APPENDIX TO PROFESSOR WEGNER'S TESTIMONY:

PATENT PENDENCY

Patents granted March 1, 1994

PTO'S OWN GOALS AND STATISTICS

PTO GOAL . . . . . 18 mos.

PTO CURRENT STATISTICS . . . . . 19.5 mos.

ACTUAL PENDENCY IN SPECIFIC AREAS

BIOTECHNOLOGY ("DNA") . . . . . 60 mos.

"MUFFLERS" . . . . . 16.3 mos.

"INTERNAL COMBUSTION ENGINES" . . . . . 17.5 mos.

Methodology for this search and numbers of patents included in the search are set forth in the appended tabulation.

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PATENTS GRANTED MARCH 1, 1994

BIOTECHNOLOGY ("DNA") . . . . . 60 mos. average pendency

U.S. Pat. 5,290,926 49
U.S. Pat. 5,290,916 U.S. daughter of a further U.S. parent, foreign priority . . 69
U.S. Pat. 5,290,694 foreign priority 73
U.S. Pat. 5,290,691 U.S. daughter of a further U.S. parent, foreign priority . 101
U.S. Pat. 5,290,690 foreign priority 68
U.S. Pat. 5,290,687 U.S. daughter of a further U.S. parent, foreign priority . 120
U.S. Pat. 5,290,677 U.S. parent 45
U.S. Pat. 5,290,418 18
U.S. Pat. 5,288,846* U.S. Parent 41
U.S. Pat. 5,288,845* U.S. parent 33

"MUFFLERS" . . . . . 16.3 mos. average pendency

U.S. Pat. 5,290,974 12
U.S. Pat. 5,289,612 19
U.S. Pat. 5,288,211 19
U.S. Pat. 5,284,115* foreign priority 16
U.S. Pat. 5,281,778** 8
U.S. Pat. 5,281,246** 14
U.S. Pat. 5,280,143** foreign priority 13
U.S. Pat. 5,280,142** 27
U.S. Pat. 5,276,291** 18
U.S. Pat. 5,274,201** 13

"INTERNAL COMBUSTION ENGINES"17.5 mos. average pendency

U.S. Pat. 5,291,409 36
U.S. Pat. 5,290,463 13
U.S. Pat. 5,290,462 13
U.S. Pat. 5,290,460 13
U.S. Pat. 5,290,373 11
U.S. Pat. 5,289,898 14
U.S. Pat. 5,289,837 15
U.S. Pat. 5,289,812 9
U.S. Pat. 5,289,810 foreign priority 27
U.S. Pat. 5,289,809 foreign priority 24

The quoted term was searched within *claims* of the first ten patents granted on March 1, 1994 and earlier as they fall out under a LEXIS search (* = granted February 1994; ** = granted January 1994); working backward, the first ten patents were then tabulated keyed to the first priority date including U.S. parent cases and/or Paris Convention foreign priority. (There were no Patent Cooperation Treaty cases captured in the data.) The search was conducted on March 8, 1994 using the LEXIS PATENT;UTIL database.

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Senator DECONCINI. Our next witness will be Gary Griswold, Vice President of Intellectual Property Owners, Inc.

STATEMENT OF MR. GARY L. GRISWOLD, VICE PRESIDENT, INTELLECTUAL PROPERTY OWNERS, INC., WASHINGTON, DC

Mr. GRISWOLD. Thank you very much, Mr. Chairman.

Good morning. I'm Gary Griswold, Chief Intellectual Property Counsel for 3M, and I'm also Vice President of International Property Owners, Inc., IPO, and I'm testifying today on behalf of IPO.

As you know, IPO is a nonprofit organization that has owners of patents, trademarks, copyrights, and trade secrets. Our members are responsible for a substantial portion of the R&D that takes place in the United States. In fact, 3M spends over $1 billion in R&D yearly. IPO members pay a substantial portion of the $500 million in PTO fees that are paid each year to the patent office.

I was happy to hear Commissioner Lehman say that he thinks that true harmonization is possible during Clinton's first term because I think harmonization is a key fact that must take place in order for our inventors to obtain a worldwide return on their inventions, and that's not happening today.

My comments will be focused on S. 1854, and we compliment the Senator in the introduction of that bill.

The bill has four key elements: first is the 20-year term; second is internal or domestic priority; third is publication in 18 months; and, fourth is provisional rights.

These pieces are all necessary, and they're parts in a puzzle, and they're all required. The 20-year term is something that we've talked about as far as required by GATT and the agreement with the Japanese. It will help prevent submarine patents.

I've personally been involved in litigation relating to a submarine patent that had been pending for 15 years. I just learned of a patent that was granted on February 1, 1994 that claims priority back to December 24, 1954. I don't think that's what we want to do here with our patent system.

As part of this 20-year term business though, we do need to have internal or domestic priority rights so that our inventors can establish their date and not have that date cut into their 20-year term. So that's an important part, which is included in this bill, of the overall package.

As far as 18-month publication is concerned, this has to be done cost-effectively. Mr. Wegner has certainly laid out reasons why that should take place, and Commissioner Lehman mentioned that providing a patent that you can take to the bank is very important. One way that you do that is to have 18-month publication so you don't have secret priorities that are not used in the examination that comes up later. People need to know what the priority is when they examine patent applications, and they also need to know what conflicts there are possible and relative to the products that they're going to market, and also they need to have the information available on these patent applications that are filed from foreign inventors that are published in 18 months outside of the United States but are not presently published in the United States. We need to see them in English, and we need to see them here.

As far as the publication is concerned, another feature that is necessary is accelerated examination. This will allow applicants in the United States for an additional fee to obtain an early determination of the patentability of their inventions so that they can decide whether or not to allow the case to be published. This will help protect trade secret rights in the United States, which are also a critical element of the group of rights that intellectual property owners need.

The final element of this 4-part package is provisional rights. If we're going to publish, if we're going to have a 20-year term, we need provisional rights so that a patent owner who files a patent application after a publication can collect his royalty from the period after publication to the date of the patent. We find that that is an important element that's present in laws outside of the United States, and we believe it's an important part of this package.

So overall IPO is in support of S. 1854, and we compliment the Chairman for introducing it, and I will take any questions that you may have.

[Mr. Griswold submitted the following:]

PREPARED STATEMENT OF GARY L. GRISWOLD

SUMMARY

- IPO supports prompt enactment of S.1854, the "Patent Term and Publication Reform Act of 1994."
  The term of a patent should be changed from the current period of 17 years after the issuance date to a period of 20 years measured from the filing date of the first complete application.
  The Patent and Trademark Office (PTO) should be required to make applications public 18 months after filing if a patent is not issued by that time.
  The 20-year term should be coupled with a one-year "internal" or "domestic" priority right.
  The making public at 18 months should be coupled with a provisional right to a reasonable royalty after the invention is made public.
- The United States should continue to pursue comprehensive world patent law harmonization. We are paying a heavy price for retaining the current patchwork scheme of worldwide patent rights.
- IPO urges support for the proposal in the President's 1995 budget that would make all patent fee surcharges available for use by the PTO.
- IPO makes suggestions relating to management of PTO operations, including control of office space rent and improvement of the quality of patent examining work.
- IPO supports government corporation status for the PTO, including: broad operating flexibility similar to that enjoyed by private businesses, authority for the PTO to borrow money, and a statutory advisory committee of PTO users.

Mr. Chairman and Members of the Subcommittee: It is a pleasure to be here today. I am Chief Intellectual Property Counsel for 3M Company in St. Paul, MN, and Vice President of Intellectual Property Owners (IPO). I am speaking on behalf of IPO.

IPO is a non-profit association whose members own patents, trademarks, copyrights, and trade secrets. Our members are responsible for a substantial portion of the research and development conducted in the United States. My own company, for instance, has an R&D budget of more than a billion dollars a year. IPO members also pay a substantial portion of the $500 million a year in fees that are charged by the Patent and Trademark Office (PTO).

I would like to explain our recommendations for changes in laws that are administered by the PTO and recommendations for improving funding and management of the PTO. We view improvements in U.S. patent law and PTO operations as crucial steps toward an ultimate objective: inexpensive and effective worldwide patent

protection to help U.S. businesses and inventors obtain a worldwide return on their inventions.

S. 1854: ELIMINATING "SUBMARINE" PATENTS

We support prompt enactment of the elements of S. 1854, the "Patent Term and Publication Reform Act of 1994," which was introduced by Chairman DeConcini on February 11. We compliment the Chairman for his leadership in introducing this bill.

S. 1854 would eliminate the practice of keeping patent applications submerged in the PTO in a confidential status for a long period of time. We recognize the need for U.S. patent applicants to retain trade secret protection for their inventions for a reasonable time until they determine the scope of patent protection they will obtain. Today, however, important patent applications are being kept secret in the PTO for many years, either through successive continuing applications that are abandoned one after another until a patent finally issues, or as a result of lengthy interferences.

During the public hearings held by the PTO last October, an IPO member, Dow Chemical Co., provided a good example of the mischief that "submarine" patents can cause. Dow spent tens of millions of dollars to launch a new product that turned out to be very successful. Within a year after launch, unfortunately, another party obtained a U.S. patent on the product after a pendency period in the Patent and Trademark Office of 22 years! The corresponding foreign patents had long since expired.

Two changes are needed in U.S. law to prevent this type of situation:

- The term of a patent should be changed from the current period of 17 years after the issuance date to a period of 20 years measured from the filing date.
- The PTO should be required to make applications public 18 months after filing if a patent is not issued by that time.

(1) Twenty-year patent term

The current term of 17 years from patent grant is interfering with the patent system's objective of disseminating information to the public promptly and providing early information about legal rights and technology. The 17 year term measured from grant is encouraging applicants to file too many successive continuing applications on the same invention, and is doing nothing to encourage quick prosecution of individual applications. The result is that the period of uncertainty about the status of legal rights in many inventions is too long.

We favor a definition of the 20-year term of a patent along the lines of that proposed in S. 1854, which measures the term from the earliest-filed complete application in the United States. This is basically the patent term used in Europe and Japan.

The 20-year term needs to be coupled with a one-year "internal" or "domestic" priority right along the lines proposed in S. 1854 by its amendment of sections 119 and 120 of the patent law. This priority right would provide a level playing field by giving U.S. patent applicants a way to establish a priority right for purposes of filing abroad without having that filing cut into the 20-year patent life that is measured from the filing date of the first complete application in the U.S. Some foreign countries already offer such an internal priority right to their nationals.

S. 1854 properly maintains existing provisions for patent term restoration to compensate for delays due to the federal regulatory process. We also recommend an automatic extension of the 20-year term for up to five years when the patent grant was delayed by a secrecy order, plus authority to provide compensation by the government for delay exceeding five years as a result of a secrecy order.

In addition, we recommend studying the possibility of extending the 20-year term, perhaps for up to five years, to compensate for unavoidable delays caused by patent interference proceedings. The benefits from providing such an extension may well outweigh the drawbacks.

(2) Eighteen-month opening or publication of applications

IPO endorses the concept of opening or publishing applications 18 months after the filing date or priority date, whichever is earlier, as proposed by S. 1854.

The current U.S. patent system is causing uncertainty about the status of patent rights in new technology, and is unreasonably delaying dissemination of technological information. The uncertainty and delay, we believe, are weakening the incentives for U.S. innovation and investment in technology that the patent system is supposed to provide, and are weakening our technological competitiveness.

The United States needs to strike a balance between, on the one hand, the interest of U.S. patent applicants in keeping applications confidential until the date of patent grant, and on the other hand, the interest of the general public in being able to identify potential patent conflicts at an early date and obtain early access to information in patent disclosures.

Technology owners have a right to rely indefinitely on trade secret protection instead of patents, but once an owner elects to seek patent protection, the public needs to know of the possibility of patent rights in and outside the U.S. within a reasonable time.

Under the 18-month publication system proposed in S. 1854, the U.S. public will benefit from obtaining—earlier and in English—information that is disclosed in foreign-origin patent applications filed in the U.S. Foreign countries are already making public that information, as well as U.S. origin applications filed abroad, 18 months after the priority date. Although we examine patent applications and publish granted patents much more promptly than other countries today, we are slower to publish foreign-origin patent disclosures. For example, if a foreign-origin application is granted as a patent 19 months after filing in the United States, the disclosure is not published in the United States until 31 months after the priority date. Under the 18-month publication procedure of S. 1854, we would be moving the publication date ahead by 13 months and into step with the rest of the world.

IPO recommends opening or publication at a time no later than 18 months after the filing or priority date, a period that gives the public the benefit of the information within a reasonable time. The opening or publication should be done through a procedure that will not add greatly to the cost of the patenting process. Implementing the PTO plans for filing patent applications in electronic form should assist in giving the public ready access to the applications in a cost effective manner.

Eighteen-month opening or publication should be implemented in a way that will allow U.S. patent applicants to know before opening or publication whether they will obtain useful patent coverage. This will allow patent applicants to abandon their applications if the likely scope of protection is not a sufficient trade-off to justify making the invention public.

To achieve this objective, we recommend adding an option to S. 1854 similar to the accelerated examination option proposed in S. 2605, 102nd Cong., 2d Sess., to allow U.S. applicants, upon payment of a fee, to obtain a faster than normal examination that would be completed, along with any appeals, before opening of the application to the public.

However, the option for accelerated examination should not be a substitute for a prompt prior art search and first action in regular applications. The PTO should continue routinely to make searches and issue first actions in all applications in time to permit applicants to decide, on the basis of the results of the first action, whether to abandon their applications without publication.

Eighteen month opening or publication must not be viewed as an invitation to the PTO to relax its policy of prompt examination of applications. IPO opposes deferred examination of patent applications, because it adds to the uncertainty over legal rights. We would oppose an 18-month publication scheme that opened the door to *de facto* deferred examination.

IPO also supports the feature of S. 1854 that guarantees a provisional right to a reasonable royalty based on an invention claimed in the opened or published application. Such a provisional right becomes a necessity when applications are opened or published before patenting. Such rights are common in foreign patent systems, and we understand that they have not caused problems.

Eighteen-month opening or publication with provisional rights complements the 20-year term measured from filing. A reasonable royalty after publication may compensate the patentee for time lost from the 20-year patent term as a result of delays in the PTO.

Provisional rights should be available only against persons who have knowledge or notice of the opened or published application. Recovery of a reasonable royalty should be limited to recovery for infringement of claims in the patent that are substantially the same as claims in the opened or published application.

WORLD PATENT LAW HARMONIZATION

Enactment of S. 1854 would be a step toward world patent law harmonization, since the 20 year patent term from filing and 18-month publication are features that are already in the patent laws of Japan and Europe.

At the same time, IPO believes it is vitally important for Congress and the Executive Branch to continue to pursue more comprehensive world patent law harmonization. The United States is paying a heavy price for retaining the current patch-

work scheme of worldwide patent rights. We are turning too many inventions over to foreign firms without receiving any compensation. Often U.S. industry and inventors do not seek worldwide protection under the current scheme, because they are barred by a premature disclosure or they cannot afford the expense. World patent harmonization will help U.S. businesses and inventors to obtain a worldwide return on their inventions.

In addition to enacting S. 1854 and implementing the Uruguay Round GATT agreement, the U.S. should strive to reach agreement with our trading partners on a broader harmonization package including:

- Conversion of U.S. patent law to a first-to-file system.
- A uniform definition of "prior art" to be followed by all countries.
- Major improvements in the patent laws of other countries.

We believe that patents can be granted under a first-to-file system with less expense, delay, and uncertainty than under a first-to- invent system. When two or more inventors come up with the same invention at about the same time, only the patent offices of the U.S., Jordan, and the Philippines attempt to award the patent to the first inventor. Interference proceedings for determining the first inventor are complicated and often lengthy. Our first-to-invent system also leaves more continuing uncertainty about every patent after it is granted, because another party may invalidate the patent years later on the ground that the patent owner was not the first inventor.

Currently, the U.S. limits the complexity of first-to-invent by prohibiting introduction of evidence of dates when inventions were made abroad in countries other than Canada and Mexico. The new GATT agreement, however, will require the U.S. to eliminate "discrimination as to the place of invention" for all GATT member countries. When the legislation implementing the GATT agreement comes into force, litigation over inventive activity in foreign countries will make first-to-invent even more complex and uncertain.

As a part of world patent law harmonization, the U.S. therefore should convert to a first-to-file system. Among other things, a worldwide first-to-file system should include "prior user rights," which balance the interests of the patent owner and the interests of other parties who have invested in commercialization of the invention before the patent owner files for protection.

In order for the patent offices of the world to eliminate their expensive duplication of effort in examining patent applications covering the same invention, they must first develop a common definition of "prior art." The definition of prior art in U.S. patent law differs in technical but important ways from definitions in other countries. A common definition is needed.

Patent laws in Japan, and Europe and other countries also contain serious weaknesses that must be corrected as a part of any comprehensive harmonization arrangement. For example, official fees charged for obtaining and maintaining patents often are exorbitant; total fees to protect an invention throughout Europe are more than 10 times the level in the United States. Many countries in the world do not provide a one-year grace period" during which an inventor can make his or her own invention public without losing the right to obtain a patent. Certain countries delay the examination of patent applications for many years. Patents are further delayed when competitors are permitted to "oppose" the issuance of a patent. Other countries have not followed the lead of the USPTO in permitting applicants to file application in their native language, although Japan has now agreed to accept applications in the English language beginning in 1995. Some countries interpret patent claims" so narrowly that the value of patent rights is diminished.

A number of other serious deficiencies exist. We are sharpening our list of U.S. private sector expectations for improvements in foreign patent laws. If Japan and Europe agree to improvements that meet expectations, the U.S. should proceed with harmonization and move toward the ultimate goal of an inexpensive worldwide patent.

PTO FUNDING AND MANAGEMENT

IPO has several recommendations for the Subcommittee concerning the funding and management of PTO operations under existing law.

We were delighted to learn that the President's 1995 budget, which was submitted to Congress last month, proposes language for the appropriations bill that would make available to the PTO all of the patent fee surcharges that are collected pursuant to the 1990 Budget Act. Our members have been very concerned about the $35 million in patent fees collected for the surcharge account that have not been made available to the PTO over the past three years.

We know that the Judiciary subcommittees of the Senate and House have sought a solution to this problem in the past. We urge you to lend your support to the recommendation in the President's budget when the matter comes before the Appropriations Committees.

In our testimony on oversight of the PTO before this Subcommittee two years ago, we expressed concern over the rapidly escalating cost of office space rent for the buildings occupied by the PTO in Arlington, Virginia. While the rental rate has been reduced substantially from the levels projected two years ago, we believe the rates being assessed to the PTO by the General Services Administration are still higher than prevailing market rates for office space in the Northern Virginia area. We suggest that the Subcommittee look into this matter.

We also suggest that the Subcommittee look into the need for a more satisfactory long-term solution to the space needs of the PTO. The PTO will be seeking additional office space in the near future. It may be more cost effective for the PTO to own its buildings. For example, the PTO could obtain ownership through a lease-purchase or "capital lease" arrangement. Particularly since the PTO is a user fee-funded agency that can expect to have relatively stable office space needs for the long term, every effort should be made to obtain the most economical arrangement.

IPO favors acceleration of the program to enable electronic filing of patent applications and other documents in the PTO. We understand that the PTO's budget submission to Congress is proposing some reorientation of the PTO's automation programs.

The quality of patent examining work is a continuing major concern to IPO members. We have covered this topic in several earlier oversight hearings. We still believe more attention is needed to the patent examiner production quota system. Another factor that may be having an adverse effect on the quality of patent examination is a scarcity of patent examiners and supervisors who have law school training. The number of PTO personnel who are law school graduates has declined steadily for at least three decades. It may be time for the PTO to re-emphasize the importance of law school training for its examining personnel.

In order to perform high quality work, patent examiners need the best possible search files. Automation is one part of the solution to the problem of inadequate search files. In the field of software- related inventions, for example, the paper reference files should also be improved, by adding collections of software manuals and the like. PTO management currently is working to improve its software search files. We urge high priority for this effort.

In short, the PTO needs to redouble its efforts to maintain and improve patent examining quality.

PTO GOVERNMENT CORPORATION

At this Subcommittee's 1992 oversight hearing, IPO explained in detail its recommendations for "reinventing" the administrative operations of the PTO by establishing the PTO as a government corporation. We continue to believe that a PTO government corporation could improve the level of services provided to PTO users. A PTO corporation should have the following main features:

- Broad operating flexibility similar to that enjoyed by private businesses with regard to personnel systems, employee compensation, contracting for services, and ability to inject entrepreneurial spirit into operations;
- Authority for the PTO to borrow money through the issuance of bonds, subject to limits set by Congress; and
- A statutory advisory committee of PTO users to advise the Commissioner and the Congress on administrative operations of the PTO.

The President's "reinventing government" project has received a great deal of attention. The last Congress formed a new government corporation, the "United States Enrichment Corporation." As we understand it, the Administration is now proposing government corporation status for the Federal Aviation Administration.

We suggest that the Subcommittee consider whether the proposal for a PTO government corporation may be an idea whose time has arrived.

* * * * *

Thank you for the opportunity to be here. I will be glad to answer any questions.

INTELLECTUAL PROPERTY OWNERS,
Washington, DC, April 8, 1994.

Hon. DENNIS DECONCINI,
Subcommittee on Patents, Copyrights and Trademarks,
Committee on the Judiciary,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: Thank you again for the opportunity to testify on behalf of IPO at the hearing on March 9, 1994, on oversight of the Patent and Trademark Office.

I am enclosing my answers to your supplemental questions.

We will be glad to supply any additional information that would be of interest of the subcommittee.

Sincerely,

GARY L. GRISWOLD,
Vice President.

GARY L. GRISWOLD'S RESPONSES TO QUESTIONS SUBMITTED BY SENATOR DECONCINI

Question 1. In your testimony, you explain that Dow Chemical spent tens of millions of dollars to launch a new product that turned out to be very successful.

However, within one year after launch, another party obtained a U.S. patent on the Dow Chemical product after having its patent application at the Patent Office for 22 years!

Would you explain how a 20 year patent term from filing and an 18 month publication rule would have prevented this from occurring?

Answer. A 20-year patent term measured from filing of the first complete application would guarantee that a patent application would never be pending in the Patent and Trademark Office (PTO) for as much as 22 years. No patent term would be left after the twentieth year of pendency.

The 20-year term measured from filing eliminates any incentive for patent applicants to file successive continuing applications on the same invention for the purpose of delaying the beginning of the 17 year term. Successive continuing applications are justifiable in some circumstances to afford the applicant an opportunity to add disclosure or claims covering additional features of an invention, or to provide more time to respond to unjustified rejections made by PTO examiners. We believe, however, that applicants too often take advantage of continuing applications to delay the expiration dates of their patents. With a 20-year term from filing, much of the incentive to prolong pendency would be eliminated.

An 18-month publication rule would not necessarily have prevented the 22-year pendency in the example offered by Dow Chemical Company, but it would have prevented Dow from being surprised by the issuance of the patent. By eliminating the element of surprise, the 18-month publication rule would eliminate another incentive for parties to keep applications pending in the office for long periods of time. Together, 20-year patent term measured from the filing date and a requirement for making applications public 18 months after filing should eliminate the "submarine patent" problem.

Question 2. IPO has been on record in strong support of the patent harmonization negotiations that were occurring over the last few years. In January Secretary Brown decided that American industry would not sufficiently benefit from the changes the current text of the treaty would require of the United States.

What is IPO's position on Secretary Brown's decision?

Was the current text of the treaty an adequate document for the Administration to sign?

Answer. We understand Secretary Brown's decision is that Europe and Japan must signal a willingness to make major changes in their laws that will benefit American industry before he will seek resumption of negotiations. IPO agrees with the objective of seeking major changes in the laws of other countries. IPO has never considered the current text of the treaty an adequate document for the administration to sign, but only an adequate document for negotiation.

Recently we have begun sharpening our list of U.S. private sector expectations for improvements in foreign patent laws. The current text of the treaty does not raise all of the issues that need to be addressed in negotiations. For example, official fees charged for obtaining and maintaining patents often are exorbitant in foreign countries. Total fees to protect an invention throughout Europe are more than ten times the level in the United States.

If Japan and Europe agree to improvements that meet U.S. expectations, then the U.S. should proceed with harmonization and move toward the ultimate goal of an inexpensive worldwide patent. The United States will have to change to a first-to-file system in order to achieve a worldwide agreement on harmonization, since nearly all countries of the world are on a first-to-file system.

We do not agree that small businesses and independent inventors somehow might benefit less from harmonization than other patent owners. If anything, the less-expensive and more-certain worldwide patent protection that will become available under a harmonized system should help small business and independent inventors more than other patent owners.

Question 3. Mr. Griswold, you are a patent counsel to a large American company that is very active in protecting its intellectual property.

How often does your company file patents in Europe and Japan?

How much will your company benefit from changes to our trading partners' patent laws?

Answer. 3M supports strong worldwide intellectual property protection. We file about–0 percent of our U.S.-originating U.S. patent applications in Europe and Japan.

Fifty percent of 3M's business is outside of the United States. Our emphasis in obtaining and enforcing patent rights to protect our business will be greatly benefited by proposed changes to the U.S. trading partners' laws, including:

(1) Having a uniform set of laws which should eventually lead to less duplication of effort by the various patent offices around the world and reduce costs.

(2) Defining "Prior Art" the same in all countries, again to reduce duplication of effort leading to reduced cost.

(3) Providing a one-year grace period which will reduce the likelihood of a loss of patent rights in countries which now do not have a grace period and where a disclosure before filing forecloses the ability to obtain valid patent rights.

(4) Eliminating deferred examination which provides the opportunity for a very large number of unexamined patent applications to be lying in wait to impact our business in those countries that have deferred examination.

(5) Eliminating pre-grant oppositions, which have in some cases caused patent applications to be serially opposed by competitors, effectively eliminating any useful patent life.

(6) Allowing filing in English with easy correction of errors so that rights are not lost because of translation efforts.

(7) Providing a reasonable scope of protection beyond the literal scope of claims through an equitable doctrine of patent claim interpretation.

(8) Eliminating provisions which allow for self-collision between one or more unpublished applications of the same party.

(9) Making the requirements for filing an application simpler.

We want the patent laws in other countries changed to make obtaining patent protection less expensive and to provide for more uniform and predictable patent protection around the world. This will allow 3M, along with all other businesses, large and small, to obtain worldwide patent protection on their inventions. Today, because of the differences in the patent laws between the U.S. and other countries, too many inventions made in the United States are not providing a worldwide return to the U.S. inventors even though they are being used outside the United States by others. Changes in the patent laws of the countries as above-outlined will provide substantial benefit to 3M.

Senator DECONCINI. Thank you, Mr. Griswold.

Mr. Newtson?

STATEMENT OF MR. GARY NEWTSON, PRESIDENT, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, WASHINGTON, DC

Mr. NEWTSON. Thank you, Mr. Chairman.

I am President of the American Intellectual Property Law Association. The AIPLA is an 8,500 member national bar association whose membership consists primarily of lawyers and private and corporate practice in Government service and in the academic com-

munity. As such, the AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, unfair competition, and other fields of intellectual property law.

I appreciate the opportunity to appear here today to summarize the position of the AIPLA on several issues related to the mission of the U.S. Patent and Trademark Office.

The first and foremost issue is the contents of S. 1854. This bill introduced by you, Mr. Chairman, contains provisions which, if enacted into law, would strengthen the U.S. patent system and assist the PTO to administer patent laws more efficiently and effectively.

Second, the PTO and those who use its services face a financial problem, which you've heard earlier, that the subcommittee can aid in solving. We enthusiastically support S. 1854. This support is in part based on our Association's long-standing support for international patent harmonization, but in equal measure, on the Association's belief that certain fundamental reforms of the U.S. patent system are needed irrespective of harmonization.

There are three provisions which we'll address briefly, and the AIPLA has a fourth provision we would like you to consider adding:

The three provisions are publication and opening of patent applications 18 months after filing, rights to pre-grant post-publication royalties, and a 20-year term.

With regard to the first provision, the AIPLA supports the publication of pending patent applications 18 months after filing because it would simply be a great improvement in the operation of the entire U.S. patent system for reasons that have been expressed by others here. The United States is the only major country in the world which does not open or publish pending patent applications at 18 months from the earliest filing date.

With respect to the second provision, the AIPLA supports the concept that after a patent is granted, the patentee can recover a royalty for use of the patented invention during the pre-grant period subsequent to the publication of the application. This provision has no analogue in current U.S. law, but is a common complement of those patent systems with 18-months publication and a patent term measured from the patent application filing date. It assures the inventor-patentee reasonable compensation for use of his or her invention, which is particularly equitable when there is a substantial period between the filing and the actual grant.

With regard to the term of a U.S. patent, the AIPLA supports a change so that the expiration of the patent is 20 years following the filing date. Such a patent term could provide an incentive for all patent applicants to seek prompt patent issuance, and prevent patents from continuing to be enforced for 30 or even 40 years, as Mr. Griswold just indicated, after filing an initial application disclosing the invention.

This bizarre result is possible under the current United States law and has in fact occurred when, for instance, an interference of a filing of a series of continuation and continuation in part applications may delay the grant of the patent.

As a matter of fairness in connection with the term provision, we do urge the subcommittee to add language to S. 1854 to take into account applications which are ordered to be kept secret under 35

USC 181. For national security reasons, certain inventions are not allowed to be processed normally, and in the Patent Harmonization Act of 1992 S. 2605 there was such a provision.

To achieve quality efficiency and a more effective examination procedure, we believe you should consider amending the filing system to allow for provisional filing of an application. An initial application could be filed, which would be considerably simplified, less technical, and less costly to prepare than under the present requirements. An applicant would have then 1 year to file his formal application.

With this system, U.S. applicants would be able to establish an application filing date with minimal expense and effort immediately at the time the invention is established.

I would like to address the Patent and Trademark Office fee surcharge fund:

After the Omnibus Budget and Reconciliation Act of 1990 was enacted, the yearly burden in fees of the Patent and Trademark Office increased more than $100 million. Also OBRA dictated that the PTO must be totally user funded. As we understand, the provisions of OBRA usually exempt user fee receipts from being used in calculating discretionary spending ceilings.

However, for reasons which may not have been originally intended, the PTO fee surcharge fund is not so exempted although all other PTO fee income is exempted. As a result, during the last 3 years Congress has refused to allow the PTO $30 million in collected user fees.

The record reflect that Senator DeConcini did his utmost to prevent this diversion of user fees from the PTO. Over the years, the AIPLA and others in the intellectual property community have appreciated those efforts. We also commend the Clinton administration, and, particularly, Commissioner Lehman for taking positive steps to end this objectional practice. President Clinton has proposed of the appropriations bill covering the PTO to contain a provision which would provide that the surcharge is collected pursuant to OBRA for fiscal years 1995 through 1998 and shall be made available to the PTO until expended for necessary expenses.

The AIPLA strongly supports the enactment of this amendment in the law.

This completes my summarization, and I would be pleased to answer any questions that the Chairman may have.

[Mr. Newtson submitted the following:]

PREPARED STATEMENT OF GARY L. NEWTSON ON BEHALF OF THE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

SUMMARY

- AIPLA enthusiastically supports S. 1854, the "Patent Term and Publication Reform Act of 1994." This support is in part based on our Association's long-standing support for international patent harmonization, but in equal measure on the Association's belief that certain fundamental reforms of the U.S. patent system are needed, irrespective of harmonization.
- AIPLA supports the publication of pending patent applications because it would greatly improve the operation of the entire U.S. patent system. The United States is the only major country in the world which does not open or publish pending patent applications at 18 months from the earliest filing date.
- AIPLA supports changing the term of U.S. patents so that the expiration of the patent is 20 years following the filing date (exclusive of internal or foreign pri-

ority filing). Such a patent term would provide an incentive for all patent applicants to seek prompt patent issuance and prevent patents from continuing in force for 30 or even 40 years after commercialization of the invention.

- AIPLA supports a system of flexible examination and urges that it be added to S. 1854. AIPLA also supports providing for an "internal priority" filing as S. 1854 does. With these two options, U.S. applicants will be able to establish an application filing date, with minimal expense or effort, immediately at the time the invention is established.
- AIPLA strongly supports effective congressional action to end the practice of refusing to allow the U.S. Patent and Trademark Office to use patent fees to provide the services for which those fees are paid. All user fees paid to the PTO should be equal under the law, even those deposited to the Patent and Trademark Office Fee Surcharge Fund.

The American Intellectual Property Law Association (AIPLA) is an 8,500 member national bar association whose membership consists primarily of lawyers in private and corporate practice, in government service, and in the academic community. As such, AIPLA represents a wide and diverse spectrum of individuals, companies and institutions involved directly or indirectly in the practice of patent, trademark, copyright, unfair competition, and other fields of law affecting intellectual property.

I appreciate the opportunity to appear today to offer the position of the AIPLA on several issues directly related to mission of the United States Patent and Trademark Office (PTO). The first and most important is the contents of S. 1854, the "Patent Term and Publication Reform Act of 1994." This bill, introduced by you Mr. Chairman, contains provisions which, if enacted into law, would strengthen the U.S. patent system and assist the PTO administer the patent laws more efficiently and effectively. Second, the PTO and those who use its services face a financial problem the Subcommittee can aid in solving. After some preliminary remarks, these issues are discussed below.

* * * * *

The United States patent laws and the administration of those laws by the U.S. Patent and Trademark Office have served our country well for more than 200 years. However, never before have we faced such fundamental challenges from foreign competition, challenges that have forced us to reexamine the operation of the patent system. The AIPLA urges reform of the U.S. patent system, especially in the context of international harmonization of patent laws, in order to meet the challenge of foreign competition and to benefit those engaged in industrial innovation in our country.

The AIPLA believes that such reform has two components. First, we must improve the quality and cost effectiveness of the administration of the patent law by the PTO. The PTO as an organization must be more responsive to the needs of inventors and patent owners. The AIPLA has recommended that the PTO be established as a government corporation, independent from the Department of Commerce. A report entitled *Establishing The Patent and Trademark Office as a Government Corporation* detailing the benefits of such a reorganization has been submitted to this subcommittee for consideration in the past. This report speaks for itself, and, accordingly, this issue is not discussed here.

The second aspect of reform relates to the patent law itself. Improvement in our law is the goal of the AIPLA. The AIPLA has been actively involved in efforts to harmonize patent laws and systems of the world since 1984. This decade-long effort to achieve international patent harmonization has convinced many patent bar practitioners that our present patent law needs some change. Several elements of foreign patent systems operate with greater simplicity, less uncertainty and fewer delays compared to their counterparts or lack thereof in U.S. law. S. 1854 reflects such a reality.

Reform of our domestic patent system by the enactment of S. 1854 will significantly and directly benefit inventors of all types—from individuals, independent inventors, university researchers, small businesses, and start-up enterprises to the largest, most resourceful and most sophisticated users of the U.S. patent system. The AIPLA only supports changes in our patent system which would be in the best interests of the entire universe of domestic inventors, not a certain select community.

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PATENT TERM AND PUBLICATION REFORM ACT OF 1994 (S. 1854)

The AIPLA strongly supports S. 1854. The association Board of Directors adopted the recommendations in a report from special blue ribbon association committee on May 8, 1990. Those recommendations included two of the three main provisions in S. 1854: (1) opening up and publication of patent applications 18 months after their filing (or, if applicable, after an earlier priority date) together with rights to pregrant, post publication royalties, and (2) expiration of the patent grant at 20 years following the patent application filing date, together with a domestic internal priority provision. S. 1854 also provides a filing date based term for design patents which the AIPLA supports.

The AIPLA recommends this subcommittee consider adding a provision to S. 1854 to establish a flexible examination system to complement the 18-month publication and 20-year term provisions. That provision was included in the "Patent System Harmonization Act of 1992" (5.2605) introduced by you, Mr. Chairman, in the 102nd Congress.

A discussion of the benefits of these amendments follow.

Publication and opening of patent applications

Publishing and opening pending patent applications is a *cost-effective* means of ensuring:

- Applicants can identify—and assist the patent examiner in considering—all potentially relevant prior art in a timely manner. Under current law, earlier filed patent applications constitute prior art as against later-filed applications when issued as U.S. patents * * * process which can take from more than a year to a decade or more. 35 USC § 102(e). When an earlier-filed application issues late, a patent examiner cannot consider it when examining the later-filed application. In such case, the examination is incomplete * * * and the patentability determination may be incorrect. By opening applications at 18 months, all prior art based on earlier filed patent applications will be available for consideration during examination.
- Potential interferences can be identified and declared by applicants at an early date. Senior party applicant/junior party patentee interferences—all too common in the PTO now—can be avoided.
- Patent counsel will be able to give their inventor clients more complete and accurate patentability assessments quicker, because all § 102(e) "secret prior art" appears within 18 months of filing.
- Non-infringement opinions can be more complete and reliable, since the existence of potentially adverse patent rights can be more readily identified and monitored.
- U.S. inventors will have prompt access—in the English language—to a comprehensive technological database similar in principle to that which foreign inventors already receive from their home-country patent offices.

U.S. industry cannot optimize competitiveness domestically or internationally under a patent system which operates in total secrecy prior to a grant. In a world where technology develops rapidly, where investment decisions must be made quickly, and where competition raises the consequences of indecisiveness, a patent system cannot serve the needs of business without maximizing promptness, correctness and certainty of its patentability assessments. U.S. industry cannot operate effectively under a patent system which issues basic patents on a technology—many years after filing or invention—to the surprise of an industry built on non-infringement opinions.

The only controversy concerning 18-month publication involves two points: (1) It will cost users of the patent system money; and (2) It will force disclosure of some unpatentable inventions, with resultant loss of trade secret rights for certain inventors.

Can the United States afford to publish applications? Costs of any new system must be compared to the anticipated benefits. Clearly, other countries, including both rich industrialized nations as well as developing countries—have found the benefits of publication outweigh the costs. Moreover, the costs of opening and publishing of applications are spread over the entire patent user community, rather than being restricted to applicants alone. Finally, with the emergence of electronic filing of patent applications and the ability to minimize typesetting costs, the "cost" portion of the cost-benefit assessment is a minimal concern.

In our opinion, any "trade secret" loss due to opening applications will be relatively insignificant. To begin with, those affected by any potential loss of trade se-

crets rights constitute only a very small number of applicants who fill all of the following characteristics, namely——

- domestic inventors,
- who chose not to file foreign counterpart applications,
- who can keep the invention a secret in the course of commercialization of the invention,
- who do not otherwise publish or publicly disclose the invention,
- whose patent application does not issue before the 18-month publication period, and
- whose invention is ultimately determined to be unpatentable or not sufficiently broadly patentable so that a meaningful patent cannot be obtained.

Patent applicants who fit all of the above characteristics would most likely possess process inventions which can be practiced as trade secrets, not product or apparatus patents, whose commercialization constitutes public disclosure of trade secrets. Anecdotal evidence suggests that process patents are insignificant in terms of total numbers of applications filed. However, an option is to adopt an accelerated examination procedure for those few applicants who wish to have the PTO make a final patentability determination before the 18-month publication.

Regardless of the outcome—to ignore or to offer an accelerated examination to such rarely encountered applicants is far outweighed by the highly tangible benefit to all users of the patent system.

Rights to pre-grant, post publication royalty

After a patent is granted, the patentee can recover a royalty for use of the patented invention during the pre-grant period subsequent to publication of the application if two conditions are met.

First, the alleged infringer must have had actual knowledge of the published application.

Second, the infringer's product or process must infringe a claim in the granted patent that is substantially identical in scope with a claim in the published application. The intent should be to establish the same standard of claim identity to qualify for pre-grant rights as between the published application and an issued patent as is required between an original patent grant and a reissue patent or reexamined patent in defeating a claim for intervening rights.

This provision has no analog in current United States law, but is a common component of those patent systems with 18-month publication and a patent term measured from the patent application filing date. It assures the inventor-patentee reasonable compensation for an unauthorized use of his or her invention which is particularly equitable when there is a substantial period between filing and actual grant.

Twenty-year patent term

Setting the expiration of the patent grant at 20 years from date of filing of the application offers advantages which have been widely recognized for many years.[1] Importantly, it will eliminate the possibility that patents may remain in force 30 or even 40 or more years after the initial filing of the application disclosing the invention. This bizarre result is possible under current United States law, and has in fact occurred, when, for instance, an interference or the filing of a series of continuation and continuation-in-part applications delay grant of the patent.[2]

For applicants relying on a foreign or international priority application date, the patent grant would expire up to 21 years from the earliest priority date. The provisions of S. 1854 which amend 35 USC § 119 and 120 establish a domestic internal priority system. This measurement of the patent term is standard outside the United States and will provide a period of exclusivity that is roughly comparable to the current U.S. patent term measured from the date of grant. Moreover, United States applicants are placed on an even par with those applicants who rely on a foreign priority whose United States prosecution (and, presumably, eventual date of grant) is often a year later compared to an applicant whose first filing is in the United States.

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[1] See, e.g., President's Commission on the Patent System, *"To Promote the Progress of * * * Useful Arts: in an Age of Exploding Technology* 33–34 (1966).

[2] A notorious case in which patents similar in scope issued 15 years apart because of Interference-related delays—resulting in effect in a 35 year patent!!—is *Studiengesellschaft Kohle mbH.* v. *Northern Petrochemical Co.,* 784 F.2d 351, 228 USPQ 837 (Fed. Cir. 1986). The court characterized the delay as "appallingly long" but noted that "it is for Congress to decide whether to change the law."

As a matter of fairness, we urge the Subcommittee to add a provision to S. 1854 to take into account applications which are ordered to be kept secret under 35 USC § 181. For national security reasons, certain inventions are not allowed to be processed normally. We recommend that a patent granted on an application which was ordered to be kept secret be extended for a period of time equal to the time the order was in effect, but in no case to more than 30 years from that date of filing, excluding any claims of priority under section 119 or 365.

Flexible examination

Under current U.S. law, a patent application is automatically subject to a search and examination by the PTO after filing. To promote efficiency and a more effective examination procedure, the AIPLA proposes a flexible patent filing system which has three features:

Provisional filing

An initial application would be filed that is considerably simplified and less technical than is currently required. For example, the application would not need a claim but would only need an adequate disclosure of an invention and how to make and use it. The application in this form would establish a filing date, or priority right, but would not be examined. Because the cost to the PTO of receiving and filing the application would be low, the filing fee could also be low. In our opinion, it would be possible for many inventors to prepare this type of application without the assistance of an attorney, thereby further reducing the cost of entering the patenting process.

Request for Search and Examination

At the time of initial filing, one year after a provisional filing, or anytime in between, the applicant could file a complete application and request search and examination. A full filing fee reflecting search and examination cost of the PTO would then have to be paid.

Request for accelerated search and examination

At the time of filing or shortly thereafter, an applicant may request the PTO to complete the examination and appeal process before the application could be open to the public. The applicant would have to file a complete application, pay the full filing fee plus a 25 percent surcharge and comply with special rules established by the USPTO to expedite prosecution. Also, an applicant could only use this procedure if a corresponding application would not be filed outside of the U.S. and the claimed invention has not been disclosed to the public. The primary purpose for this procedure is to allow inventors to preserve the option of abandoning the application before publication thereby retaining the invention as a trade secret.

We submit that this flexible examination system will eliminate unnecessary PTO effort in preparing premature search and examination reports, provide for cheaper more simplified filing of patent applications to establish priority, and, in the rare case of a purely domestic filer whose invention could possibly be kept as a trade secret, provide an accelerated examination option.

PATENT AND TRADEMARK OFFICE FEE SURCHARGE FUND

In October, 1990, Congress passed the Omnibus Budget Reconciliation Act of 1990 (OBRA). When the President signed this bill into law, the *yearly burden* in fees for those who use the services of the Patent and Trademark Office *increased* more than one hundred million dollars. Also, OBRA dictated that the PTO must be totally user fee funded.

As we understand, the provisions of OBRA generally exempt user fee receipts from being used in calculating or "scoring" discretionary spending ceilings or limitations. However, for reasons which may not have been originally intended, the PTO Fee Surcharge Fund which is comprised totally of user fee income is not so exempted. All other PTO fee income is exempted. As a result, during the last three fiscal years, Congress has refused to allow the PTO to spend $35.1 million in collected user fees to provide the services for which the those fees were paid.

The record should reflect that Senator DeConcini did his utmost to prevent this diversion of user fees from the PTO. Over the years, the AIPLA and others in the intellectual property community have appreciated those efforts.

We also commend the Clinton Administration, and particularly Commissioner Lehman, for taking positive steps to end this objectionable practice. President Clinton has proposed that the Appropriation Bill covering the PTO contain a provision which would provide that notwithstanding 31 USC section 1302 and section 10101(b) of OBRA, "surcharges" collected pursuant to section 10101(a) and (c) of

OBRA for fiscal years 1995 through 1998 shall be made available to the PTO until expended for necessary expenses. The AIPLA strongly supports the enactment of this amendment into law.

* * * * *

This completes our statement. I'd be pleased to answer any questions the chairman or members of the subcommittee may have.

GARY L. NEWTSON'S RESPONSES TO QUESTIONS SUBMITTED BY SENATOR DECONCINI

Question 1. Has the AIPLA been satisfied with the Patent Office's efforts to disseminate their information to the public?

One of the primary responsibilities of the Patent Office is to disseminate to the public information disclosed by granted patents. Such dissemination is how the constitutional directive of promoting science and the useful arts is achieved. The Automated Patent System (APS) project has, for the first time, given the PTO the ability to overcome the transmission and retrieval problems inherent with paper documents.

The AIPLA has been disappointed, in the past, that the PTO in developing the APS placed a low priority on information dissemination. The failure to incorporate foreign patent information into the APS database is of particular concern. Over the years both the Senate and House Judiciary Committees have shared this opinion, and have repeatedly urged the PTO to increase information dissemination efforts. We particularly appreciate the direct assistance of Senators DeConcini and Grassley in directing the PTO to test CD–ROMs as a medium of dissemination.

In the recent past, the Assistant Commissioner for Information Systems and the Assistant Commissioner's deputy have both retired. Those positions remain vacant. The PTO is also in the process of reorganization which, among other things, will affect the planning and supervision of the automation programs. Therefore, we are not aware of any significant new initiatives which will affect future patent information dissemination. However, two initiatives are apparently still going forward, both of which we strongly support.

First, we believe that it remains a priority of the Department of Commerce to connect the APS database to the National Research and Education Network. If that occurs it would provide remote access to the text and images of all U.S. patents, and ultimately, all patents recently issued by the Japanese and European Patent Offices. Such access would be considerable benefit to the American industrial research community, the university research community, and those, including attorneys, who extensively use patent information.

Second, we understand that the "First Page Database" (FPD) has now been completed by the European Patent Office in collaboration with the USPTO and Japanese Patent Office. As you know, this database of the first page of patents will include full bibliographies data, the title of the patent and an abstract in English, together with graphic information such as chemical formula or a drawing. The FPD includes 5.2 million patents, recently issued, from U.S., Japan, EPO and five other patent granting authorities. The FPD can be delivered on line or by means of mixed mode CD–ROMs. The patents will be classified by technology so the FPD is not only searchable but also as to CD–ROMs may be purchased in segments.

The use of the FPD will provide a significant improvement in access to worldwide patent information. The public and patent examiners would both benefit from the ability to use this information product. Hopefully, the USPTO will take steps to make it available at an early date.

Question 2. AIPLA has been on record in strong support of the patent harmonization negotiations that were occurring over the last few years. In January Secretary Brown decided that American industry would not sufficiently benefit from the changes the current text of the treaty would require of the United States.

What is AIPLA's position on Secretary Brown's decision?

The Association Board of Directors adopted the following Resolution in response to Secretary Brown's statement on the WIPO patent harmonization process:

> RESOLVED, the American Intellectual Property Law Association (AIPLA) supports in principle the conclusion of an international agreement or agreements providing for the harmonization of the patent laws of the United States, Japan, and the European Union with all deliberate speed, *provided* that any such agreements fully meet the private sector expectations in the United States for improvements to foreign patent laws, and, *further,* AIPLA reaffirms its position that patent harmonization is strongly

in the interests of all inventors, including small entity inventors and entrepreneurs.

The AIPLA recognizes that Secretary Brown and Commissioner Lehman have the responsibility to set policy affecting intellectual property. The AIPLA will continue to strive to improve the U.S. patent system and the rights of U.S. inventors in foreign countries. We are fully confident that goal has and will continue to have the support of both the Executive and Legislative branches of government as it has in the past.

Question 3. Was the current text of the treaty an adequate document for the Administration to sign?

The "Patent Law Treaty" remains in incomplete draft form only. Many significant provisions have not been negotiated and finalized. The plan was that this work would be completed in the second session of the diplomatic conference. As we all know, that did not occur. Therefore, because the document has never been completed, the AIPLA Board of Directors and membership have not had the opportunity to evaluate whether adoption of the treaty serves the best interests of the United States in terms of changes required to domestic and foreign country patent laws.

Senator DECONCINI. Thank you, Mr. Newtson, and thank you for those constructive suggestions.

Mr. Berman?

STATEMENT OF MR. RICHARD BERMAN, PRESIDENT, INTERNATIONAL TRADEMARK ASSOCIATION, WASHINGTON, DC

Mr. BERMAN. Thank you, Mr. Chairman.

Mr. Chairman, on behalf of the International Trademark Association, or INTA, I am grateful for this opportunity to present our views on trademark office operations as well as on current and upcoming Federal trademark initiatives.

As always, we appreciate being able to work with you, the members of this committee, and your excellent staff.

My name is Richard Berman, and I presently serve as chairman of the board of directors and president of INTA. I am employed by General Mills, Inc. as senior associate counsel, having primarily responsibility for trademarks.

As with all INTA officers, board members, and committee chairs, I serve on a voluntary basis.

INTA is a 115-year old not-for-profit organization with over 2,900 members comprised of corporations, professional associations, law firms, and package design firms in the United States and over 100 other countries. Our members, no matter their place or origin or where they do business, as do all trademark owners, share common concerns as well as common goals in the safeguarding of trademarks which serve to inform and protect the public while functioning as essential instruments of local, nation, and worldwide commerce.

The trademark initiatives with which we are concerned would, if approved, have a significant impact on trademark office operations. To this end, the Association's remarks will focus not only on the current state of the trademark office, but, in addition, the anticipated U.S. adherence to the Madrid Protocol, trademark harmonization, and the increasing need for a Federal dilution statute.

INTA recognizes the record-setting demands that have recently been made upon the trademark office and commends the office for the success it has achieved in responding to its customers. The Association notes that over the last year 139,000 applications were filed, which erased a predicted 1993 budget shortfall.

Nevertheless, it is a matter of considerable concern to us that the pendency for first actions has increased to 5 months. Should it appear that pendency will remain at this high level, we would be pleased to work with the office officials to find and implement specific solutions.

We applause the objective of the U.S. PTO reorganization proposal to clarify and strengthen the lines of administration responsibility, particularly, as it relates to the Office of the Assistant Commissioner for trademarks. We understand that as a part of the reorganization, the trademark office will get its own mail facility. This alone should result in increased efficiencies of manpower, time, and budget.

However, we are concerned that the TTAB is to no longer report to the Assistant Commissioner's Office, and the trademark search room will also continue to report elsewhere. These two operations have a direct and significant impact on trademark office affairs.

Thus, we seek assurance that the separation of these activities from other trademark office responsibilities is in the best interest of the trademark community.

Additionally, we ask that as a part of the reorganization, consideration be given to the improvement of trademark office automated resources and its procurement and contracting components. The Association is concerned that applicable Federal policies and practices in this area may be inappropriate for a 100 user fee funded office. An efficient trademark office automation system will become even more critical should, as we hope, the United States becomes a member of the Madrid Protocol.

The Madrid Protocol is a proposed international trademark registration treaty that would allow a resident of a member country who has filed a trademark application in its home country to seek trademark protection in other member countries through the filing of a single international application with its own home trademark office.

This is significant because it will facilitate obtaining and maintaining trademark rights abroad without unduly compromising U.S. law or prejudicing the rights of U.S. trademark owners.

Thus, Mr. Chairman, with two minor clarifications which are dealt with in my written statement, INTA enthusiastically endorses S. 977 which would permit U.S. adherence to the protocol.

In a related area, INTA has long recognized the need for trademark harmonization. Although the ultimate goal was substantive trademark law harmonization, we recognize that it is easier to first harmonize the procedural aspects of the trademark law. Current filing procedures of other nations are typically costly and paper intensive.

Under the leadership of WIPO, a number of governments and organizations interested in intellectual property have labored to reduce and harmonize trademark procedures on a worldwide basis. The result is the proposed trademark law treaty. The treaty's benefits are many. We continue to be an active supporter of U.S. adherence to the treaty as WIPO prepares to put the final touches on it.

On the domestic front, INTA supports a Federal dilution statute to provide trademark owners with a practical way to prevent the

diminishment of the value of their marks, and facilitate the introduction of new brands.

This is discussed further in our written testimony, and we hope to be working with your office on this matter in this session.

We are pleased that over the past number of years the trademark office has grown in size, quality, and importance. This growth has not only benefited trademark owners, but the general public as well. As always, the Association stands ready to assist the Congress and the Commissioner in increasing the trademark office's ability to accommodate the many changes in local, national, and world economies while protecting the benefits of trademarks as instruments of commerce.

I would be pleased to answer any questions that you might have.

Thank you.

[Mr. Berman submitted the following:]

PREPARED STATEMENT OF RICHARD M. BERMAN ON BEHALF OF THE INTERNATIONAL TRADEMARK ASSOCIATION

SUMMARY

Over the past decade, the TMO has grown in size, quality and importance. This growth has not only benefited trademark owners but the general public as well. Nevertheless, in a shrinking world, a world where brand names typically supersede their local place of origin and more and more often, even their home countries, the value of individual marks must be recognized and protected in every corner of the globe.

The USPTO, through the TMO, must assume a leadership role in devising and implementing initiatives to promote the advantages of registering and protecting marks—not just for trademark owners but for the sake of consumers and commerce. The TMO must continue to look inward—to always seek to improve internal operations. However, to continue to show gains, it is just as critical that the TMO look outward to accommodate changes in local, national and world economies. As always, the Association stands ready to assist the Congress and the Commissioner in that effort.

I would be pleased to answer any questions from you and the members of your subcommittee.

Mr. Chairman, The International Trademark Association (INTA) appreciates the opportunity to present our views on Trademark Office (TMO) operations as well as on current and upcoming federal trademark initiatives. As always, we appreciate the opportunity to work with you, the members of this subcommittee and your excellent staff. My name is Richard M. Berman, and I presently serve as Chairman of the Board of Directors and President of INTA. I am employed by General Mills, Inc., as Senior Associate Counsel having primary responsibility for trademarks. As with all INTA officers, board members and committee chairs, I serve on a voluntary basis.

INTA is a 115-year old not-for-profit membership organization. Its membership has grown from twelve New York based manufacturers to over 2900 corporations, package design firms and professional associations in the United States and in over 100 countries. Our members cross all industry lines, spanning a broad range of manufacturing, retail and service operations. They include both small and large businesses and all sizes of general practice and intellectual property law firms.

While more than 85 percent of our corporate members are U.S. based, virtually all are multinational. All have significant U.S. operations and facilities. We own the majority of America's well-known brand names as well as a substantial portion of all marks registered in the TMO. However, trademark owners, no matter their country of origin, not only share common concerns but common goals regarding the safeguarding and advancing of trademarks as essential instruments of worldwide commerce and the protection of the interests of the public in their use.

Because TMO and other USPTO operations are now 100 percent user-fee funded, INTA realizes that relying on user-fees presents a number of substantive and sometimes unique issues that call for careful deliberation and continuing scrutiny to en-

sure that the agency satisfactorily meets the needs of its users. Additionally, the initiatives that we are concerned would, if approved, have a significant impact on the trademark community and TMO activities. To this end, the Association's remarks will focus on the current state of the TMO, certain of its automation, contracting and procurement procedures, the proposed U.S. adherence to the Madrid Protocol, the Trademark Law Treaty (trademark harmonization) and the increasing need for a federal dilution statute. We believe each of these concerns present opportunities for trademark owners and the TMO to continue to work together.

CURRENT STATE OF THE TMO

In the last fiscal year, the TMO received more than 139,000 registration applications and issued over 75,000 registrations, both TMO records. Slightly over 50 percent of the registration applications were filed under the intent-to-use section of the law ((§ 1(b) (15 U.S.C. 1051) brought about by passage of the 1988 Trademark Law Revision Act (TLRA) which became effective in fiscal year 90.

Pendency. Due to the unexpectedly high number of applications and a hiring freeze lasting most of fiscal year 93, pendency for "first actions" has increased to five months. Since it is likely that this higher level of activity represents a permanent increase in registration application filings, the TMO has hired an additional twenty-six Examination Corps attorneys for a net increase of fourteen examiners after attrition. Nonetheless, our members are concerned by this significant increase in pendency.

TMO Budget. In 1992, the USPTO advised the Association that the TMO could suffer a fiscal year 93 budget "shortfall" as high as $7,000,000. But thanks to the high number of applications, a fiscal year 94 congressionally authorized trademark registration application fee increase of $35 per class, and a temporary hold placed on the federal personnel cost of living adjustment (COLA), the TMO now has a paper reserve of approximately $6 million. We understand that some of this reserve is already designated for specific TMO needs. Nevertheless, INTA expects to continue discussions with USPTO administrators over all significant trademark user-fee issues.

USPTO Reorganization. The Association is pleased that an important objective of the USPTO reorganization proposal is the clarification and strengthening of the lines of administrative responsibility. This will increase the accountability that the Assistant Commissioner for Trademarks will have for trademark activities. Additionally, establishing a TMO mail room by midyear will result in greater efficiencies of manpower, time and budget. Nevertheless, we note that the Trademark Trial and Appeal Board is no longer to report to the Assistant Commissioner's Office. Additionally, the Trademark Search facilities will also continue to report elsewhere. These activities have an immediate and direct impact on TMO affairs, so we seek confirmation that the separation of these operations from other TMO responsibilities is in the best interest of the trademark community.

AUTOMATION—THE SEARCH FOR GREATER EFFICIENCIES

The USPTO's goal to improve TMO automated resources and its attendant contracting and procurement components provides the Office another means to enhance its work product and value. But as a 100 percent user-funded agency, the USPTO is restricted in the financial resources it can extend to its automation aims. Further, as with other federal agencies, the USPTO is subject to sometimes burdensome federal policies and practices such as the Federal Acquisition Regulation (FAR). For example, FAR is 1,600 pages in length with 2,900 more agency-specific pages. As Vice President Gore's *Reinventing Government* report states, "These numbers document what most federal workers and many taxpayers already know: Our system relies on rigid rules and procedures * * *. It is an extraordinary example of red tape." These agency-wide policies and practices which cover many of the automation and contracting processes appear to prevent the most efficient use of TMO automated resources. INTA is particularly concerned that many of these applicable federal policies and procedures may be inappropriate for a relatively small agency office that receives no annual appropriation such as the TMO.

Improving Standards. The TMO must provide the highest standards of recording and record maintenance. Nevertheless, those INTA members which regularly collect information for their clients provided by the TMO say that current procedures too often cause unnecessary delay and confusion within the trademark community. We believe that the USPTO's reorganization strategy should review several areas including: 1) the degree that the TMO should engage in "set-asides" of funds and/or projects for certain types of contractors; 2) eliminating inflexible bidding procedures; and 3) instituting additional incentives to challenge appropriate agency personnel

to consider, create and implement new ways of pursuing error-free registration and information delivery targets.

The present system discourages hiring contractors who are in the business of capturing and automating information. As an example, by adhering to federal guidelines in a 1993 request for proposal (RFP) regarding data entry contractor services, the TMO kept potential bidders from initially obtaining sufficient and timely information. Such missing information included past statistics regarding the work flow, and staffing by the present contractor. Additionally, the RFP failed to volunteer essential data regarding the number of amendments to applications (on an average basis), the average number of keystrokes per application or even the amount of examiner overtime (which impacts the number of office actions) that has been budgeted. Once a successful bidder begins work, other obstacles may disrupt Office functions. For example, the RFP may not allow for a reasonable start-up or transition time thereby affecting other TMO operations.

TMO Response. Fortunately, the TMO recognizes both the existence and magnitude of these problems and has been open to constructive suggestions. Attempts are being made not only to follow up but to address prospective problems. For example, a new Director for the Office of Trademark Program Control has been hired to handle TMO customer automation concerns. Additionally, in response to the increasing use of sophisticated technology to handle routine matters, the TMO is actively preparing for the option of electronic filing by its customers.

Further automation meetings between INTA and TMO are being scheduled. Although these meetings will continue to focus on pragmatic solutions, we must also concentrate on the particular difficulties a user-funded agency has when it tries to adhere to those federal rules that result in unnecessarily higher costs but at the same time, fail to adequately meet the needs of TMO customers.

These exchanges between INTA and the TMO regarding all aspects of the automation process will be even more critical should the United States join the Madrid Protocol.

THE MADRID PROTOCOL—THE SHAPE OF THINGS TO COME

Madrid Protocol legislation (S. 977) currently before the subcommittee is the culmination of a long-term effort to build an international registration system to meet future needs. The initiative recognizes certain commercial realities. First, that trademarks play a crucial role in supporting both our national and international economies. Second, that the marketplace is rapidly becoming global. And third, that the United States can no longer afford to sit on the sidelines with respect to international trademark matters. The world is simply too small. The stakes are too high for merely maintaining the status quo.

The Madrid Protocol System. The Madrid Protocol is a splendid answer to those concerns. Specifically, it is a new international trademark treaty, administered by the World Intellectual Property Organization (WIPO) in Geneva. Under the Protocol, a resident of a member country who has filed a trademark application in his or her home country, or obtained a home country registration, may seek trademark protection in other member countries by filing a single international application with his or her home trademark office. Upon complying with various formalities, this application eventually matures into an international registration. Protecting this trademark, however, depends upon satisfying the examination requirements of each designated country. The Protocol also provides for a much simplified and less expensive means to maintain and assign trademark rights.

Seen in this context, it is clear that an international registration, by itself, confers no substantive rights. Rather, substantive rights flow from the extensions of protection that come from the international registration.

The Disadvantages of the Madrid Agreement. Although the United States is a member of the Paris Convention for the Protection of Industrial Property as well as several regional and bilateral treaties regarding trademarks, it is not currently a party to any international trademark registration system. Such a system has been in place now for over 100 years in "The Madrid Arrangement Concerning the International Registration of Marks" or the Madrid Agreement. Approximately 30 countries are currently members of the Madrid Agreement, including most of Europe, China, and the Russian Federation.

The United States is not a member for a number of reasons. First among them is the inability of a U.S. trademark owner to take advantage of the Madrid Agreement until it has obtained a home country or basic registration. This puts U.S. trademark owners at a disadvantage because it takes longer to obtain a registration in the United States than in most other countries. So if a U.S. and a French trade-

mark owner both seek international protection for the same mark, the French company would almost always win the race for protection.

Second, the Madrid Agreement includes a provision known as "central attack", meaning that if the home country registration is successfully attacked during the first five years of the term of the international registration, all extensions of protection in the designated countries also fall. This is particularly unfair to U.S. trademark owners since many of the possible grounds of attack on U. S. registrations are not available in other countries.

Third, the only official language under the Agreement is French. So, if the United States joined the Agreement, all documents submitted under the Agreement would have to be translated by the USPTO.

Finally, the Agreement provides for a relatively low fee schedule. If the United States became a member, non-U.S. users of the Madrid Agreement would pay substantially lower fees than applicants for U. S. registrations. U.S. adherence to the Agreement would effectively require U.S. trademark owners to subsidize the examination of applications filed by non-U.S. citizens under the Agreement.

Comparison of the Protocol and the Agreement. The Protocol is a separate treaty from the Agreement. The Protocol is similar to the Agreement because it affords trademark owners from member countries a way to obtain trademark protection around the world more easily and, in many cases, less expensively. It also greatly simplifies the trademark maintenance and assignment processes, thereby reducing costs to trademark owners.

The Protocol, however, is different from the Agreement in a number of significant ways: First, it provides that an international application may be filed on the basis of a home country application (also referred to as a basic application). Given the TLRA's adoption of an intent-to-use filing system in the United States, U.S. companies can file international applications at a much earlier point in time than under the Agreement, and they would not be disadvantaged in this regard vis-a-vis non-domestic competitors.

Second, under the Protocol, the United States could choose to take 18 months, rather than 12 months, to enter refusals on international applications. It is important to emphasize that in examining applications filed under the Protocol, the USPTO would apply U.S. trademark law. For those countries like the United States with opposition systems, refusals may be entered after the 18-month period, provided the notification of the refusal based on the opposition is made within seven months from the beginning of the opposition period.

Third, while an international registration is subject to "central attack", the Protocol provides that if the registration or basic application is successfully attacked during the first five years of the term of the international registration, trademark owners may transform their extensions of protection in the designated countries into national filings. They can also retain the effective filing date of the international registration. Thus, the effect of "central attack" is substantially modified.

The Protocol also provides that member countries may elect to charge their national fees for the examination of Madrid applications. English, as well as French, will be an official language under the treaty.

Most importantly, U.S. adherence to the Protocol would not require domestic trademark owners to seek protection overseas via the Protocol. Trademark owners may still file directly in each country in which protection is sought and, indeed, under certain circumstances, may find it advantageous to do so. The Protocol is merely an option for U.S. trademark owners.

INTA enthusiastically supports U.S. adherence to the Protocol. We support it because, simply stated, it makes obtaining and maintaining trademark rights abroad easier—and it does not compromise U.S. law or prejudice the rights of trademark owners.

In this regard, INTA believes that any non-U.S. trademark owner seeking an extension of an international registration to the United States will have to allege a bona fide intent to use the mark in commerce. Further, S. 977 requires that any extension of protection to the United States will be canceled unless affidavits of use are filed at certain points of time.

Suggestions For Revision. We offer the Committee two recommendations for amendment. S. 977 observes the provisions of the treaty and the proposed WIPO implementing regulations. However, Section 72 of the bill currently provides that "[t]he owner of a basic application filed with, and pending before the Patent and Trademark Office or the owner of a U.S. registration may file an international application * * *." In fact, the Protocol provides that only a person who is a "national" of the United States, or is "domiciled" in the United States, or has a "real and effective industrial or commercial establishment" in the United States may file an international application. Section 72, therefore should be amended to make clear that the

"owner of an application. or the owner of the United States registration" must meet these additional criteria.

Additionally, we suggest that the subcommittee consider amending the bill to authorize the Commissioner to replace a U.S. registration by an international registration, a procedure that the Protocol specifically sanctions. With the adoption of these revisions, INTA believes that adherence to the Protocol would bring the United States into the community of nations with regard to international trademark matters—not just as another newcomer, but as a leader and pacesetter.

TRADEMARK LAW TREATY—THE NEED FOR TRADEMARK HARMONIZATION

INTA has recognized the need for trademark harmonization for many years. Given the difficulty of harmonizing differing national trademark laws, INTA has supported a strategy to first attempt to harmonize current trademark formalities. These formalities are costly, paper intensive, but they are easier to harmonize in the short term than substantive law.

A Brief History of Trademark Harmonization. Other organizations concerned with trademark protection have agreed with INTA's approach to harmonization. Nonetheless, the ambitious goal of substantive trademark law harmonization was pursued during the sessions of the Committee of Experts on the Harmonization of Laws for the Protection of Marks, at WIPO in December 1989 and June 1990. No further meetings were then scheduled due to the inclusion of intellectual property in the Uruguay Round of negotiations of the General Agreement on Tariffs and Trade (GATT). Following a 1991 proposal made by the International Association for the Protection of Industrial Property (AIPPI), WIPO submitted a new draft Treaty the following year on the Simplification of Administrative Procedures Concerning Marks to the Committee of Experts.

Three subsequent meetings of the Committee of Experts greatly improved the draft treaty, regulations and forms. Based on a careful analysis of the treaty and the support of the vast majority of member states of the Committee of Experts, we believe the basic harmonization proposal, now formally referred to as the Trademark Law Treaty Proposal (TLT) to be submitted to the Diplomatic Conference late this year will result in great improvement in the present situation of trademark owners and their agents in many countries—including the United States.

TLT Highlights. TLT's benefits are many. Among them are:

- reducing and simplifying the requirements of trademark offices;
- adopting the International Classification of Goods and Services;
- eliminating attestation, notarization, authentication and legalization requirements (except in the case of a surrender of a registration);
- eliminating separate forms by way of mandatory acceptance of one request for changes of name, address or ownership concerning several trademark applications and/or registrations; and
- obligatory protection of service marks.

Further Harmonization. Harmonization of substantive trademark law will not be completed with the present draft treaty. However, it has been achieved to some extent by the recently concluded agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) under GATT. Moreover, further substantive harmonization is planned. For example, WIPO already has the topic of well-known/famous marks on its agenda. The above-mentioned benefits, the promise of future harmonization gains and the opportunity to place the USPTO in the forefront of further negotiations makes INTA an active supporter for U.S. adherence to the TLT.

DILUTION—THE NEED FOR FEDERAL PROTECTION

The registration and protection of marks requires a self-sufficient TMO. They also require a federal trademark statute which gives a trademark owner the proper tools to defend its mark from being diminished or diluted in value by others.

Trademark Dilution, Proposed Section 43(c) of TLRA and State Law. Dilution of trademark rights occurs when use of a distinctive and strong (or "famous") mark by someone other than the trademark owner causes a reduction of the value of the trademark or an injury to the trademark owner's business reputation. State dilution laws attempt to protect owners of strong marks from erosion of the distinctive quality of their marks, regardless of whether the same or similar marks are used on competing related goods and/or services. Protection against dilution is available only for strong and distinctive marks and, if granted, is limited to issuance of an injunction. Monetary damages are not available.

Currently about one-half of the states have laws that protect marks against dilution. This situation is not satisfactory. State dilution laws are a patchwork system

of essentially the same statutory language that is applied in very different and very unpredictable ways. The desire for a federal dilution statute is not recent. TLRA contained a proposed section of the Lanham Act that would have created federal protection from dilution to famous, nationally recognized trademarks. The proposed section 43(c) was drafted to augment, not preempt, existing state laws.

Due to the support and efforts of this subcommittee, the dilution provisions to the Lanham Act passed the Senate intact. However, concerns were raised by former Representative Kastenmeier, then Chairman of the House Judiciary intellectual property subcommittee, that the proposed language would not pass Constitutional muster on First Amendment grounds. He urged that the dilution provisions be deleted from the TLRA, despite confirmation by this subcommittee that the proposed language left typical First Amendment issues such as comparative advertising and parody alone. Because sufficient time was unavailable to reassure the House, proposed section 43(c) was deleted.

The Absence of a Federal Dilution Statute. Inconsistent state dilution laws are harmful to both small and large business ventures. Nationwide marketers, in particular, can be "socked" in many state and local court systems. State dilution laws also provide a disincentive to introduce new products and services under different names. Furthermore, franchisees are at risk any time a franchisor introduces a new branded program. Almost all businesses are likely to suffer from the uncertainty in clearing marks for use. The parties who benefit from the current patchwork system of state dilution laws are unauthorized users of other parties' strong marks who want a free ride on the goodwill of the mark's selling power outside the relevant or related goods or services branded by the mark.

In addition, the law is unsettled about the geographic scope of an injunction issued by a federal court in state dilution issues. It is uncertain whether a nationwide injunction improperly regulates commerce among states that do not have a dilution law. For example, can the dilution law in Illinois be the basis to issue an injunction that is binding in Indiana, which does not have a dilution law? Although freedom of speech has been raised as a defense in state dilution actions, courts have, for the most part, successfully dealt with First Amendment issues in parody or tarnishment cases by allowing the First Amendment to take priority in literary and artistic cases but requiring likelihood of confusion to be proved in cases involving the sale of commercial products sold as a parody.

Both businesses and consumers would benefit from a federal dilution law that will be applied uniformly across the United States.

INTERNATIONAL TRADEMARK ASSOCIATION,
New York, NY, April 7, 1994.

Hon. DENNIS DECONCINI,
Subcommittee on Patents, Copyrights and Trademarks,
Committee on the Judiciary,
U.S. Senate, Washington, DC.

DEAR SENATOR DECONCINI: Please find accompanying this letter my response to your supplemental question respecting the handling of the Madrid Protocol initiative by the administration and congress. It has always been both an honor and a pleasure to appear before your subcommittee for intellectual property hearings that bear on trademarks and/or the USPTO. Your willingness to listen, examine the issue at hand and then take positive steps has become your trademark. Thus, it is not surprising that you have compiled a distinguished record in intellectual property matters. Be assured that you will be missed by all those dedicated to advancing trademarks as instruments of local, national and worldwide instruments of commerce.

Very truly yours,

RICHARD M. BERMAN,
President.

RICHARD M. BERMAN'S RESPONSES TO QUESTIONS SUBMITTED BY SENATOR DECONCINI

Question 1. Mr. Berman, I Understand from your testimony that the International Trademark Association is supportive of U.S. efforts to join the Madrid protocol. Has the delay in joining the protocol caused any difficulties for your members?

Answer. INTA is indeed supportive of U.S. adherence to the protocol. It promises both U.S. and non-domestic trademark owners a superior alternative for the reg-

istration of marks. If the treaty portion does not soon proceed to the Senate, the Senate fails to timely approve it, and/or if the Congress should not approve the Madrid protocol implementing legislation in this session, the delay that is taking place could become harmful.

The USPTO states that it cannot devote user-funds to the Madrid protocol until it is enacted. Further, the agency indicates that it will require approximately 18 to 24 months to adequately prepare for processing protocol filings. Thus, it is a virtual necessity that the president sign the legislation by November 1 of this year if the trademark office of the USPTO is to effectively handle protocol filings with a minimum of disruption by fiscal year 96.

Senator DECONCINI. Mr. Berman, thank you very much.

There have been significant problems in the past with the trademark automation.

How does your organization view the current status? I take it from what you've said that it's improved, but do you have anything that you want to add to that?

Mr. BERMAN. We do think that things have improved immensely. We do feel it's too early to finally say that things are OK. X–Search is something that is working, but, nevertheless, there is pendency of 5 months on first actions. So we're not quite sure where we're going to come out with X–Search.

As far as the overall computer situation, as I indicated in my testimony, the fact that the office is 100 percent user fee funded agency, makes it difficult to really get the benefits of private industry in a computer area that might otherwise be there, and we do think that there are things that should be looked at in this area.

Senator DECONCINI. Thank you.

Mr. Newtson, under a 20-year term from the date of filing, should the clock begin running on someone's patent term when they are caught up in an interference process with another patent application?

Mr. NEWTSON. The AIPLA had a blue-ribbon panel take a look at that a few years ago and came to the conclusion that in the interference situation, we should not have an extension due to the fact that interferences might be provoked some time between two applicants who are aware that these patent applications are in an interfering position and could effectively extend the patent with cooperation with one another. It's a possibility that could exist, but we have not supported interferences.

Senator DECONCINI. How about you, Mr. Griswold? How do you feel about that?

Mr. GRISWOLD. Our organization in the written submission says that this matter should be studied in more detail because we're concerned—and I guess that's sort of a cop-out in a way—but it really isn't.

Senator DECONCINI. We're pretty good at that. We do a lot of studies up here.

[Laughter.]

Mr. GRISWOLD. Well, anyway, our view is that there are some positive things for an extension case of interference. There are some real life hardship situations where that is appropriate, but there are situations like Mr. Newtson mentioned where it's not appropriate and we do want to drive people to conclude interferences rapidly rather than extend them.

So we haven't taken a firm position on that, but the issue needs to be looked at carefully.

Senator DECONCINI. Mr. Griswold, there exist tremendous support for the move to 18 months publication. However, some valid concerns are raised by your organization about the ability of the PTO to handle the work load without deferring examination.

Would the PTO view 18 months publication as an invitation to relax its policy's prompt examination, in your judgment?

Mr. GRISWOLD. Well, we hope not. We have in our paper indicated that we do not want that to occur and that examination must take place promptly in order for people to be advised whether or not they have a patentable subject matter before they do allow publication to take place.

We do think that perhaps a way to take care of this issue is to have it laying open that moves into an actual publication so that cost can be minimized. As we move to electronic filing, perhaps that's a way to keep the cost down where we have an actual publication. In the meantime, we could have a laying open situation which may be less expensive. That's a bridging possibility that we have discussed and think may work.

We do want the patent process to be cost-effective because, as I mentioned earlier, we are not getting a return on the investment or our inventions from around the world, including the United States because some of the cost—many inventors can't afford it.

So we have to be careful and not add too much to the cost, but 18 months publication has so many other benefits that I mentioned earlier that I think we should go to it—publication or laying open, transitioning to publication.

Senator DECONCINI. Professor Wegner, you testified in strong support of S. 1854. Commissioner Lehman testified that he believes that, "It may be premature to adopt the 18-month publication proposal until we resolve other issues relevant to the topic."

I'm not quite sure what he means there, but do you have any observations about that?

Mr. WEGNER. Yes, I do.

I think 18 month publication has been an important agenda item for many years. The time has long past.

I honestly think that there is a mid-level bureaucracy, a cancer, in the patent office that wants to maintain secrecy until grant because this way the patent office can operate in a CIA-like fashion, free from scrutiny.

One example of this is the statistic. The testimony that was prepared for the Assistant Secretary talks about a 19.5 month average pendency. Everything is fine about that idea? No, it's not.

In the technology important areas like biotech, we have a 60-month pendency. I had thought the problem was solved with a GAO report 5 years ago. The GAO exploded this myth, and this is merely confirmation. This is nothing new. And what happened when the GAO exploded this myth 5 years ago? Inside the patent office to cut the pendency down in the biotech group, the stinkers, the bad cases and the old cases were transferred out from the biotech group from the biotech examiners who could examine the cases.

The Board of Appeals is another area with a problem. We have thousands of Board of Appeals opinions every year. They're kept in secrecy. Only the solicitor determines which ones will be released

to the public. So we have needless appeals in case, after case, after case because the public doesn't understand what the policy of the Board is.

There are so many areas that we need to pierce this veil of secrecy, and, with respect to pendency, we could save a fortune, industry could save a fortune, the Government could save a fortune, just in what I call piggy-backing. Even in biotech it's very important that we have cases taken up right away.

Senator DECONCINI. Excuse me, do you mind pursuing the piggyback issue. How would this work? Exactly how would it work if you piggy-backed on European patent offices and how much money would the patent office save? Could you explain that for me?

Mr. WEGNER. Yes, I can. I'm glad you asked me that question.

Basically, today without our secrecy until grant, with our unlimited term cap, without a cap from the filing date, we examine cases right away. We must do that. The only way we can get technology out to the public is to examine quickly and grant patents quickly. So we try to grant patents as soon as possible.

So what happens is that the United States takes up a case right away, within a year. The rest of the world in their parallel filing in Europe and Japan, they wait. They have phased examination in Europe, and 18 months they take a case up for searching.

So what happens is that we first plough ahead. The examiner does the best job he or she can with the limit resources with two hands tied behind his or her back, examines the case, applicants expend a great deal of money on this patent examination procedure.

Then after we've finished the U.S. examination, the European parallel search report comes out. Here you have people of diplomatic status making more money, having less time per case, and our examiners are equally bright. I don't think we should take second-class to anyone. We have bright examiners, but they have their hands tied behind their backs.

So what happens after the examiner in the United States is finished his or her examination, they the Hague Search comes out—boom, better information. Then we have to reinvent the wheel, reopen prosecution sometimes with a continuation application, sometimes re-opening prosecution.

Instead, with piggy-backing what would happen is applicants who need to have a patent examined—if I'm a biotech patent applicant, one of my 10 cases will be the crown jewels, the case I need to prosecute right away. I want to focus all of my resources on that one case; the other nine I would like to let slide a little bit and wait until I have my European search report, the full European search examination report, and then bring the case up for action. And I would think that we would have then a very quick examination in the United States piggy-backed off the European search, and how many cases would this involve?

Commissioner Lehman said we have about 55 percent of our patents go to domestic applicants, 45 percent to foreign. So 45 percent of the cases have a foreign counterpart around the world that we could piggyback off of, and then there are a significant number of Americans who file abroad and the Americans can piggyback off the European search.

Senator DECONCINI. Are you suggesting that we wait until they complete theirs?

Mr. WEGNER. I suggest industry determine when it wants to have each case examined up to a reasonable period of 24 months, something like that—not a long time, a reasonable period of time, just long enough to piggyback.

Senator DECONCINI. Do you have any estimate of what might be the savings in doing that, if possible?

Mr. WEGNER. I cannot give you today a specific estimate because of the lack of sunshine in the patent office, but I would be pleased to give some questions to the Assistant Secretary for some statistical points, and then within a month, give you some written answers, some hard figures.

Senator DECONCINI. We would welcome that.

Gentlemen, thank you very much for your testimony. It's been very, very helpful. We will keep the record open here for 3 weeks for additional testimony that you may want to add, and we may have some questions that we may want to ask you to respond to help build our record.

Thank you.

The committee will stand in recess.

[Whereupon, at 11:24 a.m., the subcommittee adjourned, to reconvene at the call of the Chair.]

APPENDIX

PROPOSED LEGISLATION

II

103D CONGRESS
2D SESSION

S. 1854

To amend the provisions of title 35, United States Code, to provide for patent simplification.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 11 (legislative day, JANUARY 25), 1994

Mr. DECONCINI introduced the following bill; which was read twice and referred to the Committee on the Judiciary

A BILL

To amend the provisions of title 35, United States Code, to provide for patent simplification.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Patent Term and Publication Reform Act of 1994".

SEC. 2. PATENT SIMPLIFICATION.

(a) DEFINITION.—Section 100 of title 35, United States Code, is amended by adding at the end thereof the following:

"(e) The term 'filing date' means the earliest of the actual filing date or any priority date claimed by the applicant under section 119, 120, or 365.".

(b) CONDITIONS FOR PATENTABILITY; NOVELTY AND LOSS OF RIGHT TO PATENT.—Section 102(e) of title 35, United States Code, is amended to read as follows:

"(e) the invention was described in—

"(1) a published patent application,

"(2) a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or

"(3) in an international application that—

"(A) is filed by another before the invention thereof by the applicant for patent, and

"(B) enters the national stage under section 371, or".

(c) BENEFIT OF EARLIER FILING DATE; RIGHT OF PRIORITY.—(1) Section 119 of title 35, United States Code, is amended—

(A) in the section heading by striking out "**in foreign country**";

(B) by designating the first, second, third, and fourth undesignated paragraphs as subsections (a), (c), (d), and (e), respectively; and

(C) by inserting after subsection (a) (as designated by subparagraph (B) of this paragraph) the following new subsection:

"(b)(1) An application for patent for an invention described in paragraph (2) that is filed by an inventor named in the previously filed application described under paragraph (2), shall have the same effect, as to such invention, as if such application had been filed on the filing date of the previously filed application, if such application—

"(A) is filed within one year after the filing date of the previously filed application (or earlier priority date); and

"(B)(i) contains a specific reference to the previously filed application; or

"(ii) within three months after the actual filing date of such application, is amended to contain—

"(I) a specific reference to the previously filed application; or

"(II) such other item as the Commissioner may prescribe.

"(2) An invention referred to under paragraph (1) is an invention that is disclosed—

"(A) in the specification as provided under section 112 in an application filed in the United States

before the application described under paragraph (1) is filed; or

"(B) as provided under section 363.".

(2) The table of sections for chapter 11 of title 35, United States Code, is amended in the item relating to section 119 by striking out "in foreign country".

(d) BENEFIT OF EARLIER FILING DATE IN THE UNITED STATES.—Section 120 of title 35, United States Code, is amended to read as follows:

"§ 120. Benefit of earlier filing date in the United States

"(a) An application for patent for an invention described under subsection (b) that is filed by an inventor named in the previously filed application described under subsection (b), shall have the same effect, as to such invention, as if such application had been filed on the filing date of the previously filed application, if such application—

"(1) is filed before the patenting, abandonment of, or termination of proceedings on—

"(A) the previously filed application; or

"(B) an application similarly entitled to the benefit of the filing date of the previously filed application;

"(2) is not otherwise entitled to a priority right under section 119(b); and

"(3)(A) contains a specific reference to the previously filed application; or

"(B) within fifteen months after the actual filing date of such application, is amended to contain—

"(i) a specific reference to the previously filed application; or

"(ii) such other item as the Commissioner may prescribe.

"(b) An invention referred to under subsection (a) is an invention that is disclosed—

"(1) in the specification as provided under section 112 in an application filed in the United States before the application described under subsection (a) is filed; or

"(2) as provided under section 363.".

(c) OPENING OF PATENT APPLICATIONS; CONFIDENTIAL STATUS.—(1) Section 122 of title 35, United States Code, is amended to read as follows:

"§ 122. Opening of patent applications; confidential status

"(a) Except as provided under subsection (b), applications for patents shall be kept in confidence by the Pat-

ent and Trademark Office and no information concerning such applications may be disclosed.

"(b) On and after the date occurring 18 months after the filing date of an application for patent (including all priority claims) each application for patent shall be open to public inspection and copies shall be made available to the public under such procedures as may be determined by the Commissioner, except—

"(1) an application may be made so available during such 18-month period if confidentiality is waived by the applicant; and

"(2) an application may be maintained in secrecy under any order under chapter 17.

"(c) The Commissioner shall publish each patent application promptly when open to public inspection under subsection (b).".

(2) The table of sections for chapter 11 of title 35, United States Code, is amended by amending the item relating to section 122 to read as follows:

"122. Opening of patent applications; confidential status.".

(f) CONTENTS AND TERM OF PATENT.—Section 154 of title 35, United States Code, is amended to read as follows:

"§ 154. Contents and term of patent

"(a)(1) Subject to the provisions of paragraph (2), every patent shall contain—

"(A) a short title of the invention;

"(B) a grant to the patentee, and the heirs or assigns of the patentee—

"(i) for a term beginning on the date on which the patent is issued and ending on a date 20 years from the date on which the application for patent is filed in the United States, excluding any claims of priority under section 119 or 365;

"(ii) of the right to exclude others from making, using, or selling the invention throughout the United States or importing the invention into the United States;

"(iii) if the invention is a process, of the right to exclude others from using or selling throughout the United States, or importing into the United States, products made by that process; and

"(iv) that refers to the specification for the particulars of the invention; and

"(C) a copy of the specification and drawings which shall be annexed to the patent and be a part of the patent.

"(2) The grant of a patent shall be subject to the payment of fees as provided by this title.

"(b)(1) In addition to the contents described under subsection (a), the grant of a patent described under paragraph (2) shall additionally include the right to obtain a reasonable royalty from any other person who, during the period before the grant—

"(A)(i) makes, uses, or sells the claimed invention in the United States, or imports the claimed invention into the United States; or

"(ii) if the claimed invention is a process, uses or sells throughout the United States or imports into the United States products made by that process; and

"(B) had actual knowledge of the published application.

"(2) Paragraph (1) applies to any patent—

"(A) that is granted based on an application published under section 122(c) before such patent is granted; and

"(B) to the extent the patent claims in the issued patent are substantially identical with the claims in such published application.".

(g) TERM OF DESIGN PATENT.—Section 173 of title 35, United States Code, is amended by striking out "fourteen years." and inserting in lieu thereof "seventeen years

from the filing date, as determined under section 154(a) of this title.".

SEC. 3. EFFECTIVE DATE AND APPLICABILITY.

The provisions of this Act and the amendments made by this Act shall take effect 90 days after the date of the enactment of this Act and shall apply only to applications filed on and after such effective date.

○

Additional Submissions for the Record

National Association of Manufacturers,
Washington, DC, March 9, 1994.

Hon. Dennis DeConcini,
Subcommittee on Patents, Copyrights and Trademarks,
Committee on the Judiciary,
U.S. Senate, Washington, DC.

Dear Mr. Chairman: The National Association of Manufacturers (NAM) has long supported a simpler and more effective U.S. patent system. The most recent expression of this can be found in the enclosed NAM Board of Directors' resolution of February 1993. Accordingly, we are in full accord with the stated purposes of your bill S. 1854, the Patent Simplification Act of 1994.

In particular, the NAM supports the two major changes to U.S. patent law proposed in S. 1854: a 20-year patent term and publication of patent applications at 18 months. Adoption of a 20-year patent term measured from the date of filing, in place of our current 17-year term from patent grant, would place U.S. practice on a par with that of most other industrialized nations. In this sense, it is one small step towards a harmonized international system. Far more importantly, however, a 20-year term from filing better balances the public and private goals of our patent system. That is, the individual's reward of limited exclusivity and the public's benefit from disclosure of new technology can be realized more effectively and with fewer abuses.

The NAM also supports the publication of patent applications at 18 months, as is the practice in the world's major patent systems. Early publication will enable patent applicants to identify potentially relevant prior art in a more timely manner than is now possible. Additionally, the existence of potentially interfering applications could be more readily and uniformly identified. We also support early publication because it will provide U.S. inventors with prompt access (in English) to technical knowledge that is available to foreign inventors from their home-country patent offices at 18 months.

While the NAM welcomes the changes to U.S. law proposed in S. 1854, we continue to believe that major changes in U.S. patent law should are best made as part of an overall process that seeks significant changes in the patent laws of other countries as well. The NAM looks forward to working with you to make this happen.

Sincerely yours,

William G. Morin,
Director,
Technology Policy.

Resolution on Reform of the U.S. Patent System

The National Association of Manufacturers reaffirms its support for international efforts to harmonize patent laws among member states of the Paris Convention. In this context, NAM supports efforts to modernize the U.S. patent system by making major changes to the patent statute (Title 35, U.S. Code) as part of a balanced package that would require changes in the patent laws of other countries. The current U.S. law has not been substantially changed in nearly 40 years and, to a large degree, is still based on the Patent Law of 1836. While NAM believes the rationale behind the U.S. patent system remains the same as it was 200 years ago,[1] we also believe the effective administration of that system in a modern world requires significant changes in the patent statute.

Changes to U.S. patent law are likely to be driven by anticipated multilateral agreements between the United States and other countries. This is particularly true in terms of the Patent Law Treaty under negotiation in the World Intellectual Property Organization (WIPO). To a lesser extent, changes in U.S. law will also be necessitated by provisions of the trade-related aspects of intellectual property (TRIPs) in the GATT Uruguay Round and the intellectual property provisions of the North American Free Trade Agreement. We believe the changes proposed below are war-

[1] Article I, Section 8 of the Constitution gives Congress the power "To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

ranted to provide a necessary *quid pro quo* to effect meaningful changes in other countries' patent regimes that will benefit U.S. inventors.

To improve the efficacy of, remove uncertainty from and reduce the costs of the domestic U.S. patent system, and to promote greater harmony between the U.S. and foreign patent systems, NAM therefore supports changes to U.S. patent law that would——

- move the United States to a "first-to-file" priority system;
- mandate publication of patent applications at 18 months from filing;
- provide a 20-year patent term from filing, while maintaining a provision for patent term restoration in cases of regulatory or other government-imposed delay;
- create a mechanism (which otherwise satisfies the substantive aspects of current law) to permit provisional filing of patent applications; and
- eliminate unnecessary cost and complexity in the U.S. patent system.

In return for making these significant changes to U.S. patent law, major changes in the patent laws of other countries will be required. Among these changes are——

- elimination of patentable subject matter exclusions (i. e., making patent protection equally available for all fields of technology);
- prompt examination and issuance procedures for patent applications;
- elimination of procedures, such as pre-grant opposition actions, that delay patent grant once examination is complete;
- an adequate minimum patent term from filing (e.g., 20 years), with provisions for patent term restoration;
- a scope of protection that extends sufficiently beyond the literal scope of claims so as to assure equitable protection (i.e., one similar to U.S. and European claim interpretation doctrines);
- the strictest of limits on the granting of compulsory licenses to private parties;
- inclusion of a one-year "grace period"; and
- elimination of other provisions in foreign laws that are discriminatory and incompatible with strong and effective protection of intellectual property rights in all countries.

The proposed changes to U.S. law are significant and are not without controversy in the United States. Nevertheless, when considered in the context of balanced treaties in WIPO and GATT, NAM believes the case for change is substantial. A harmonization package along the lines above would remove many of the costs, uncertainties and complexities in current U.S. practice, as well as make foreign patent systems more accessible and equitable to U.S. inventors.

NAM supports the goal of cost-effective, uniform, predictable and forgiving patent statutes in all countries that respond to the full spectrum of inventors and owners to promote innovation on a global basis. We support the changes noted above because we believe they will help us to achieve this goal. As passed by the NAM Board of Directors, February 13, 1993.

THE PROCTER & GAMBLE COMPANY,
PATENT DIVISION,
Cincinnati, OH, April 29, 1994.

Hon. DENNIS DECONCINI,
Subcommittee on Patents, Copyrights and Trademarks,
Committee on the Judiciary,
U.S. Senate, Washington, DC.

Subject: Senate Bill S. 1854—Patent Reexamination Reform

DEAR CHAIRMAN DECONCINI: I am writing on behalf of The Procter & Gamble Company with recommendations for improving the United States Patent System. We respectfully request that this letter be included as part of the record for your March 9 Subcommittee hearing on S.1854—Patent Reexamination Reform. Procter & Gamble is a multi-national company whose activities include research and innovation, principally directed to the development and manufacture of consumer products. Our R&D budget for fiscal 92–93 was $956 millions of dollars, the bulk of which was invested in work conducted in corporate technical centers located here in the United States. Procter & Gamble is very familiar with the United States Patent System; we are recognized annually as one of the leading corporate recipients of patents issued. For example, in 1993 the Patent Office issued Procter & Gamble 183 patents.

Based on this experience and background, the focus of my comments is the burden of cost and uncertainty associated with patent litigation. As you are no doubt aware, this concern is shared by many.

The Procter & Gamble Company strongly supports the changes in the patent law proposed in S.1854. The automatic 18-month publication is possibly the most important provision of the bill, and it is unfortunate that the current drafts of the Administration's GATF implementation legislation do not contain a similar provision. Published applications will provide investors with a fair warning before major investment decisions are made. Mandatory publication of patent applications 18 months after the priority date will eliminate a major area of uncertainty.

Anyone who in good faith develops products while respecting other parties' patent rights will be able to make investment decisions without fear of becoming confronted with a patent that no amount of searching could have uncovered. The fixed 20-year patent term will likewise encourage investment, as it also increases legal certainty.

My Company holds an extensive patent portfolio, and we frequently have seen the legal uncertainty work to our advantage. Yet, we strongly believe that any legislative initiative that increases legal certainty will encourage investment and, ultimately, benefit us all. The Procter & Gamble Company is a member of Intellectual Property Owners (IPO). IPO's Vice President, Mr. Gary Griswold, testifying before your subcommittee in the March 9, 1994 hearing, strongly supported the provisions of S. 1854. My Company fully endorses IPO's position. All proposed provisions will result in increased legal certainty, which will benefit all parties to the inventive process, encourage investment, and strengthen the economy.

At the present time, S. 1854 leaves unresolved an all too common dilemma for investors: What to do if the published application is unlikely to contain patentable subject matter? An entrepreneurial investor may, m reliance on the advice of competent counsel, gamble that the PTO will do the right thing and not grant a patent. If the bet is wrong, the only available options are to discontinue the business, obtain a license if one is available, or face major patent litigation. Most prudent investors will forego the investment, absent a reliable vehicle for attacking an improperly granted patent.

Recommendations: It is common ground that the current reexamination procedure falls short of providing this reliable vehicle. A third party requester can submit arguments as to why a patent should be reexamined, but the procedure does not permit him to participate in the dialogue with the reexamination examiner, let alone appeal an adverse decision. Once the procedure is started, it is fully *ex parte.* If the patent is upheld after reexamination, the procedure actually results in a strengthened presumption of validity. For these reasons, it is frequently deemed wiser to save any invalidity arguments for litigation. The Advisory Commission on Patent Law Reform, in its August, 1992 report to the Secretary of Commerce, made six specific recommendations for reform of patent reexamination (Recommendations VII–A through VII–F). Reduced to their essentials, the Commission's recommendations would:

a) Expand the basis for and scope of reexamination to include compliance with all aspects of 35 U.S.C.§ 112, except best mode.

b) Permit a third party requester to submit written comments on the patent owner's response to the first office action.

c) Give a third party requester the right to participate in any examiner interview (but not initiate such an interview).

d) Give a third party requester the right to submit written comments at the close of prosecution of a patent under reexamination.

e) Permit a third party requester to appeal any adverse decision of the examiner to the Board of Patent Appeals and Interferences and to the Federal Circuit.

f) Discontinue or disallow reexamination on any patent claim held valid in an entered judgment of a district court in a action in which the requesting party raised or could have raised the same issues.

If made part of S. 1854 and enacted into law, these reforms will effectively reduce patent litigation, while encouraging appropriate business investments.

On behalf of The Procter & Gamble Company, I urge the Subcommittee to incorporate Recommendations VII–A through VII–F into S. 1854. I am available to assist you in any way I can.

Very truly yours,

JACOBUS C. RASSER,
General Counsel,
Patents.

GRAHAM & JAMES,
Washington, DC, March 31, 1994.

Hon. DENNIS DECONCINI,
Subcommittee on Patents, Copyrights and Trademarks,
Committee on the Judiciary,
U.S. Senate, Washington, DC.

Re: S. 1854 and the PTO Board of Appeals

DEAR CHAIRMAN DECONCINI: This letter is written in response to a point you raised at a hearingon your bill, S. 1854, March 9, 1994. You suggested that interested persons should write you about how Congress should address the issue of the relationship of the PTO's Board of Appeals to the Commissioner,which became an issue in the appeal to the Federal Circuit of the decision in *Ex Parte Alappat,* 23 U.S.P.Q.2d 1340 (BPAI 1992).

I do not represent any client having any direct interest in this issue. My interest is based solely on the facts that I have practiced intellectual property law for many years, teach intellectual property law at The George Washington University's National Law Center, and was for many years chief of the patent section of the U.S. Justice Department's Antitrust Division.

DISCUSSION OF THE PROBLEM BEFORE CONGRESS

The issue of whether the Board should be independent of the Commissioner has long been difficult to resolve. We studied it intensely within theExecutive Branch in the late 1960's and early 1970's when patent reform legislation was pending before the Senate, which ultimately passed a bipartisan reform bill (the Hart-Scott-McClellan Patent Reform Bill). Unfortunately, the other body never addressed that legislation. We felt then that some compromise over the Board's status was in order, but that the basic structure then in effect for many years should be preserved with minor improvements.

On the one hand, it is desirable that all decision-making bodies within the Government should follow the fairness principles embodied in the Administrative Procedure Act. Moreover, the way these bodies carry out their tasks should also always avoid the appearance of unfairness. Accordingly, it should not appear that someone in an agency has "packed" the composition of a board for purposes of a particular adjudication.

On the other hand, a board or decision-making body in an Executive Branch agency often has a very different function from that of a board or administrative law judge (ALJ) in an independent regulatory agency, such as the SEC or FTC. Often, in executive agencies, and this can be true of the PTO, a board must make decisions in the light of policies the determination of which is confided by law and common sense to the head of the agency, not to the civil servants appointed to serve on the board. The Commissioner, as head of the PTO, is appointed by the President and confirmed by the Senate, for the purpose of having him or her make and carry out policy as to how the PTO is to be run in the best interests of the public. Moreover, it is the duty of the agency (meaning the Commissioner) to interpret the meaning of the patent laws in the first instance, subject to correction by the courts when the agency makes a real mistake. Those duties and that power are not, and should not be, confided to subordinates within the PTO who are not personally responsible to the President and the Congress for their acts.

A compromise is needed, therefore, to satisfy both of these sets of policies and interests. Most important, the solution should adequately protect the interests of the general public in the sound administration of the patent system.

There are two polar options that Congress could adopt for the PTO's Board of Appeals and Interferences (BPAI). One option would be to make the BPAI an independent body, answerable to no one in the PTO and free to follow—and to impose on the PTO—any policies as to the administration of the patent law that the BPAI's members in their judgment see fit. That course would be a mistake, I believe, for several reasons. First, as I have already suggested above, the arbiter of patent pol-

icy in our government should answer to the President and, through oversight and budget hearings, answer to Congress. Faceless bureaucrats should not be in charge of the U.S. patent system.

Furthermore, under our present system, making the BPAI completely independent of the Commissioner would create a serious defect—perhaps a disaster—in the administration of the patent laws. This defect could greatly harm the general public. Under present patent law, if an applicant for a patent is denied a patent wrongfully, because the BPAI made a mistake, the applicant can appeal to the Federal Circuit and persuade it to reverse the BPAI and correct the mistake. That protects patent applicants from being denied patent rights to which they are entitled. But if the BPAI, acting on its own notions of how to run the patent system and not subject to any supervision from the Commissioner, could reverse a PTO examiner's denial of a patent and order the patent to be issued—no appeal to the Federal Circuit could be taken, no matter how wrong the BPAI is and harmful to the public its action might be. The patent law does not now provide for any appeal by the PTO to protect the public against wrongful and mistaken grants of patent monopolies that should not exist. Applicants can appeal as a matter of right, but nobody can appeal on behalf of the public interest.

Under present patent law, this is not a serious problem. The Commissioner can use his status as head of the PTO to have the BPAI rehear the case with an enlarged panel, as he did in the *Alappat* case. Thus, he can rein in unruly BPAI members, correct aberrational decisions, and require that policies he sets be followed. If his policy is wrongful, the applicant can always appeal to the Federal Circuit, as he did in the *Alappat* case, which can correct mistakes made in the PTO. But if you take that power away from the Commissioner, there will be no one to prevent grants of unjust patent monopolies. That would tilt the present patent system seriously against the interests of the general public. That would be a mistake and could harm the public interest.

The second polar option would be to continue the present situation, which is one in which it appears that the Commissioner can select a "kangaroo court" to "railroad" a given case to a predetermined conclusion. That is an unnecessary and unwise artifact of the present system, and it should be eliminated. The reason that it is an artifact of the system is that, as presently constituted, the BPAI is the final voice of the agency in ruling on whether a patent should be granted in any given case. That is unnecessary, and it leads to the possible appearance of impropriety in cases such as *Alappat*. There should be a way to eliminate this artifact from the system and nonetheless protect the public from improvident BPAI reversals of PTO examining actions.

THE PROPOSED SOLUTION IN A NUTSHELL

A simple change in the present system would fully alleviate this problem by making PTO proceedings follow the APA pattern. The BPAI as a decision-making body can be made, by amending the law appropriately, comparable to an ALJ at the FTC, SEC, NLRB, or any similar independent regulatory agency; the Commissioner can then act as the "agency" itself, which the Commissioner rightfully is. The BPAI would render an initial decision, as an ALJ does at the FTC and other agencies. The Commissioner could then allow the initial decision to become final, or when necessary could replace it with a substitute final decision, as the Commission can at the FTC, SEC, NLRB, and similar agencies. That compromise would permit proceedings at the PTO to be assimilated to APA-type proceedings at independent regulatory agencies, while preserving the power of the agency's head. the Commissioner, to make policy determinations as to how the U.S. patent system shall be administered, when it is necessary to do so.

The compromise would preserve the powers of the Commissioner (a) to protect the public from misguided or unauthorized policy-making excursions at the BPAI level, and (b) to oversee how the patent system shall be administered. Yet, this would be accomplished without having to create a new kind of agency appeal to the courts from erroneous grants of patent monopolies by subordinates within the agency. Moreover, the appearance of unfairness by "board packing" would be eliminated, because the occasion for it would be completely eliminated by adopting the more traditional initial decision/final decision system used at the FTC, SEC, NLRB, and other regulatory agencies.

PROPOSED LEGISLATIVE LANGUAGE

This proposal could be carried out by making the following amendments to the patent code (title 35, United States Code):

1. Delete the last sentence of section 7(a), title 35 of United States Code, and replace it with the following sentence: "The examiners-in-chief shall constitute the Board of Patent Appeals and Interferences."
2. Delete the last sentence of section 7(b), title 35 of United States Code.
3. Designate present section 134, title 35 of United States Code, as subsection (a) of that section.
4. Add the following new subsections at the end of section 134:

(b) The Board shall prepare an initial decision in writing, setting forth the facts and conclusions of law upon which the initial decision is based, and shall forward the initial decision to the Commissioner. If the Commissioner takes no further action with regard to the initial decision within 30 days thereafter, or if the Commissioner affirms the initial decision of the Board, that decision shall become administratively final, and shall be sent to the applicant. If the Commissioner determines that the initial decision of the Board is incorrect, the Commissioner shall enter an order that the initial decision is not the final decision of the Office and shall thereafter substitute the Commissioner's final decision therefore, stating in writing the facts and conclusions of law on which the final decision is based. The final decision and the Board's initial decision shall be sent to the applicant. Thereafter, the Commissioner shall make them available to the public as promptly as practicable and publish them, and may in his discretion index them.

(c) The Commissioner shall provide by regulation with regard to administrative finality of his decisions under subsection (b) and whether and in which circumstances, if any, rehearings shall be allowed. The Commissioner may, in his discretion, cause internal reviews of initial decisions, and drafts of his final decisions, to be prepared by any employee of the Office. The Commissioner shall by informal rulemaking provide for the application of the administrative procedures described in sections 551–559 and 701–706 of title 5, United States Code, to initial and final decisions under subsection (b), making such changes as he finds necessary to adapt those procedures to proceedings in the Office. The Commissioner shall by regulation provide for appropriate protection of trade secrets when initial and final decisions are published.

BRIEF ANALYSIS OF PROPOSED LEGISLATION

1. The last sentence of section 7(b) of the patent law now provides that the BPAI consists of the Commissioner, the Deputy Commissioner, the Assistant Commissioners, and the examiners-in-chief. Because the proposed amendment would make the BPAI's decisions initial decisions of the agency, rather than final decisions as they are at present, there is no longer any need for the Commissioner, the Deputy Commissioner, the Assistant Commissioners to be members of the BPAI. The BPAI can therefore properly consist of only the examiners-in-chief.
2. The last sentence of section 7(b) of the patent law now provides that only the BPAI can grant rehearings. The proposed amendment provides that rehearings shall be had as the Commissioner prescribes by regulation.
3. The new provisions regarding the BPAI are added to present section 134 of the patent law, because that section deals with appeals to the Board under present law. First, present section 134, providing for appeals, is made subsection (a) of section 134, without any change to its content.
4. New subsection (b) of section 134 makes the decisions of the Board initial decisions of the agency, as that term is used in administrative law. If the Commissioner sees no problem with the initial decision, from the standpoint of agency policy and proper administration of the patent laws, the Commissioner would take no action or could affirm the initial decision. If the Commissioner took no action or affirmed the initial decision, it would become the final decision of the agency.

If a decision of the Board interpreted the law wrongly, in the Commissioner's view, or was against PTO policy as determined by the Commissioner, the Commissioner would enter a brief order within 30 days of the Board's initial decision, stating that the initial decision is not the final decision of the Office. The Commissioner would then cause preparation of a final decision, which would become the agency action in the case.

The final and initial decisions would both be sent to the applicant, so that on appeal the applicant would be able to have both of them made part of the record, as

is the case in appeals from final orders of the FTC and other administrative agencies. It would be inappropriate and cause an appearance of impropriety not to make the Board's initial decision open to the public, applicant, and reviewing court-irrespective of whether the Office (that is, the Commissioner) considers the Board's decision to be erroneous.

This subsection also provides that initial and final decisions shall be made available to the public as promptly as practicable and shall be published. As Professor Harold Wegner pointed out at the March 9 hearing on S. 1854, an unfortunate PTO practice has developed of keeping some BPAI decisions secret. This is unfair to applicants and leads to unnecessary appeals, because the public does not know what law the BPAI is following. There should be no secret patent law—that is a reason why we have the Freedom of Information Act. *Irons & Sears* v. *Dann,* 606 F.2d 1215, 1223 (D.C. Cir. 1979), cert. denied, 444 U.S. 1075 (1980). Accordingly, this measure provides for public availability and publication of initial and final decisions.

There was formerly a controversy over whether the PTO should be obliged to index decisions. See 5 U.S.C. §552(a)(2). The PTO resisted on burden grounds, and litigation followed. See, e.g., *Irons & Sears* v. *Dann,* supra at 1222–23. Given the present availability of full-text search software (such as "KWIC" in LEXIS), and the likelihood that these decisions will be placed into an electronic database, it seems unnecessary to require the Commissioner to index them. The proposed amendment therefore leaves it up to the discretion of the Commissioner whether to index these decisions.

5. New subsection (c) of section 134 contains a number of housekeeping measures appropriate to the administration of subsection (b).

a. The Commissioner is authorized to provide by regulation for administrative finality of his decisions under subsection (b). The Commissioner would have discretion to make all or none of them administratively final, or to provide for finality and nonfinality by categories of cases or in terms of criteria that the Commissioner found appropriate. It may be, for example, that the volume of cases would cause the Commissioner to enter very terse opinions in all cases unless it were clear that the case would be appealed to the Federal Circuit, in which case the Commissioner might consider it appropriate to cause a more detailed final opinion to be prepared. Thus denial of a petition for rehearing might be made a condition of administrative finality before an appeal could be taken.

b. The Commissioner is authorized to cause internal reviews of initial decisions, and preparation of drafts of his final decisions, to be prepared by any employee of the Office.

This is a necessary expedient within the Office, because the Commissioner does not have (and may not desire to have) a personal staff for writing opinions. Rather, the Commissioner has in the past used staff from the Solicitor's office and elsewhere within the PTO, as the requirements of particular cases have dictated. Objections have been raised against this practice on the theory that it creates bias, prejudices the interests of applicants, or somehow improperly commingles different functions within the agency. As long as a decision is that of the Commissioner, however, it should make no difference whom the Commissioner selects as a scrivener and he should be allowed to select personnel for these tasks in whatever way he considers most efficient-so long as the ultimate decision is actually his and he takes full responsibility for it. Moreover, this practice leads to higher quality, more well considered opinions being prepared for review at the Federal Circuit than might otherwise occur, particularly in important cases.

c. The Commissioner is directed to provide by regulation for the application of the APA to initial and final decisions. It is intended that the APA shall apply to the fullest extent practicable. However, the Commissioner is authorized to make such changes as are necessary to adapt APA procedures to proceedings in the Office. This provision will bring PTO proceedings more into line with those of other agencies, and will help eliminate any appearance of impropriety.

d. The Commissioner is authorized to provide by regulation a means of protecting trade secrets in decisions that will become available to the public. For example, the Commissioner may give patent applicants notice, when decisions are sent to them, that a decision will be published in full unless within 30 days the applicant specifically identifies any trade secret material that should be kept unpublished. When a patent application is published,

of course, trade secrets in the specification become public, and accordingly the full decisions should be made available.

CONCLUSION

It is believed that the proposed amendments will effect a compromise that will put to rest the questions that have been raised against PTO internal appeals. At the same time, the proposals will permit the Commissioner to safeguard the public interest against erroneous BPAI actions, maintain his authority and duty to administer the patent system, and preserve the PTO's ability to be responsible to the President and Congress.

It is requested that you make this letter a part of the hearing record on this legislation.

Sincerely yours,

RICHARD H. STERN.

THE NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION, INC.,
New York, NY, March 18, 1994.

Hon. DENNIS DECONCINI,
Subcommittee on Patents, Copyrights, and Trademarks,
Committee on the Judiciary,
U.S. Senate, Washington, DC.

NYIPLA COMMENTS ON S. 1854

DEAR SENATOR DECONCINI: We submit these comments, on behalf of the New York Intellectual Property Law Association (NYIPLA), for inclusion in the record of the hearings held on March 9, 1994 regarding S. 1854.

NYIPLA and its activities

Our Association (formerly, The New York Patent, Trademark and Copyright Law Association) was organized in 1922. We now have more than 1000 members, most of whom actively practice intellectual property law in the New York metropolitan area (either as private practitioners or as corporate employees). Our members represent diverse clients ranging from individual inventors to large corporations.

We have long been interested in the improvement of our nation's Patent Laws; our past Officers and Committees helped to draft the current Patent Laws. We have also considered and debated at length the possible harmonization of our Patent Laws with those of other developed countries. In 1992, for example, we submitted an extensive report to the Advisory Commission on Patent Law Reform—commenting on a number of proposals, some of which are the same as or similar to the changes now advanced in S. 1854. I understand that our earlier submissions were forwarded to the appropriate working groups and received active consideration.

In addition, last spring we sponsored a series of debates at the Fordham University Law School regarding harmonization. This event, which took place over a two-day period just prior to our Annual Dinner in honor of the Federal Judiciary, was widely attended. The featured speakers represented diverse views. While most were U.S. practitioners, the group also included representatives from WIPO. the USPTO, Japan, Germany and Canada.

More recently, we wrote to Commissioner Lehman and provided him with a number of comments, including our Association's views on the three principal issues raised by S. 1854. We enclose a copy of the letter. In sum:

1. We support the publication of patent applications 18 months after filing. One of the few international standards going back many years is the laying open of patent applications 18 months after their effective priority dates. This provides the public and the USPTO with an orderly means of learning about new inventions, promotes economic research and avoids conflict. Applicants concerned about loss of secrecy should havethe right to withdraw an application within a reasonable time prior to publication pursuant to regulations promulgated by the Commissioner of Patents. Thus we support the proposed change that, unless sooner withdrawn pursuant to applicable regulations, patent applications be published 18 months after filing.

2. We support the measuring of a patent's term of protection from the filing date of the application. We generally support the proposal to have a patent term of 20 years from filing. The average time for USPTO to grant

a patent is reportedly now about 18 months. This is fast by the standards of the other major examining offices, yet there are instances (clearly not in the public interest) where 20 or more years go by before a patent issues for a term of 17 years measured from grant. The 20 year term from filing is substantially fair and will properly focus attention on ways tofurther simplify and speed up the processingof cases that currently take so long.

3. We support provisional protection between publication and patenting. We also favor provisional protection after publication—subject to eventually obtaining a patent. We agree with the proposal that such a provisional remedy publishedclaims should be limited topatent which have substantially the same scope as later allowed claims, and to situations where the infringer had actual knowledge of the publication.

Respectfully submitted,

WILLIAM J. GILBRETH,
President,
Board of Directors.

THE NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION, INC.,
New York, NY, October 28, 1993.

Mr. LEE SCHROEDER,
Commissioner of Patents and Trademarks,
Washington, DC.

COMMENTS ON PATENT LAW HARMONIZATION

DEAR SIR: We submit these comments inresponse to the request you published in the Federal Register of August 20,1993.

About the association and its activities

Our Association (formerly, The New York Patent, Trademark and Copyright Law Association) was organized in 1922. A principal purpose was to be of assistance to your Office. We now have more than 1000 members, most of whom actively practice intellectual property law in the New York metropolitan area (either as private or as corporate employees). Our members represent diverse clients ranging from individual inventors to large corporations.

We have long been interested in the improvement of our Nation's Patent Laws; our past Officers and Committees helped to draft the current Patent Laws. We have also considered and debated at length the possible harmonization of our Patent Laws with those of other developed countries. Last year, for example, our Association submitted an extensive report to the Advisory Commission on Patent Law Reform—commenting on a number of proposals, many of which are the same as or similar to the changes now advanced in the draft Patent Harmonization Treaty. I understand that our earlier submissions were forwarded to the appropriate working groups and received active consideration.

To further focus on the key harmonization issues, last March we sponsored a series of debates at the Fordham University Law School. This event, which took place over a two-dayperiod justprior to our Annual Dinner in honor of the Federal Judiciary, was widely attended. The featured speakers represented the diverse views recently echoed during your October 7–8 hearings. Most were U.S. practitioners. But the group also included representatives from WIPO, the USPTO, Japan, Germany and Canada.

The purpose of this letter is to inform you of our Association's views on the issues you have selected for discussion. Before addressing these issues once more, however, we thought it may be useful to refer back to the history of the harmonization debate, to which I now turn briefly.

Harmonization history in the United States

The relevant benchmark on this subject in recent times is the *Report of the President's Commission on the Patent System,* submitted to then President Lyndon Johnson on November 17, 1966 ("the 1966 Report"). Many of the proposals made in that report are now contained in our Nation's Patent Laws. The Report also included recommendations on the eighttopics to which comments were directed at your recent hearing. But none was adopted. We think it worthwhile in considering the present draft Patent Harmonization Treaty to recall the objectives stated in that Report of almost three decades ago—because those objectives seem as sound and pertinent now as then:

1. To raise the quality and reliability of the U.S. patent system.
2. To shorten the period of pendency of a patent application from filing to final disposition by the Patent Office.
3. To accelerate the public disclosure of technical advances.
4. To reducethe expenseof obtaining and litigating a patent.
5. To make U.S. patent practice more compatible with that of other major countries, wherever consistent with the objectives of the U.S. Patent system.
6. To prepare the patent system to cope with the exploding technology foreseeable in the decades ahead (1966 Report, p.4).

In wording as prescient as it is elegant, the Report went on to emphasize that:

> Many of the problems related to these objectives are intertwined. An attempt to solve or reduce a problem at one point of the system can expose or create a dislocation at another. Separate and uncoordinated solutions to individual problems would yield a gerrymandered patent system full of internal contradictions and less efficient than the one we now have (1966 Report, p.4).

We agree, and emphasize that the exclusive right to make use and sell granted by a United States patent, in this Nation with its GDP exceeding $5,674.4 billion, combined with a legal system which makes patent enforcement possible, constitutes an extraordinary value, with a rich history of benefit to the Nation, its citizens, and arguably the world. It is a system in which citizens of foreign nations already participate but no other single nation or patent system offers equivalent economic value. Therefore, we are firmly convinced that changes shouldnot be undertaken without receiving consideration in kind and assuring to United States inventors and their assigns reasonably equivalent value and prospects of enforcement of patent rights in foreign jurisdictions. It is in this context that we address the specifics.

The specific issues

1. Procedure for awarding patents (first-to-file or first-to-invent). Article 9 of the proposed Patent Harmonization Treaty ("PHT") provides that the right to a patent will belong to the first-to-file rather than the first-to-invent where competing inventors have independently made the same invention. There is currently no alternate provision, although the United States has asked for the option to retain its first-to-invent system.

In considering this issue we start with the fact that our Nation has had a first-to-invent system for two hundred years. We see no reason to change unless it can be *shown* that, on balance, there is a solid economic justification for the change. In addition, we believe it important to protect the rights of inventors and smallerentities, e.g., by including an option to file a simplified "provisional application."We also believe that, if the U.S. receivesappropriate consideration for the change and protects the rights of our innovators, there may be *advantages* to a first-to-file system. Take interference practice, for example.

While present U.S. law is founded on the first-to-invent principle, only about 200, or about one tenth of one percent, of the more than 175,000 annual U.S. patent applications are subject of contest to determine the first-to-invent. About half of these 200 cases are settled and the first-to-file wins the majority of the remainder. See Calvert and Sofocleous, "Interference Statistics For Fiscal Years 1989 to 1991, 74 JPTOS 822 (1992). The rules of interference contests are complex. See Morgan, "So You Think You Want to Get Into an Interference? Some Things You Should be Aware of First," 74 JPTOS 303 (1992).It is clear that the overall impact of interference practice is very small and the U.S. could dispense with it, improve it, or keep it unchanged, withoutaffecting the vastmajority of applications.

Since approximately one half of U.S. patent applications are now filed by foreigners, and interferences between foreigners now account for about one third of all interferences (Morgan, 74 JPTOS at 313), the first-to-invent principle is increasingly irrelevant to U.S. inventors.

The first-to-invent and the first-to-file systems reflect, however, a philosophical difference. The former recognizes private activity of inventors without any more formal requirement than keeping some form of records. The latter recognizes only the public act of filing in a government office. Both systems have their critics and advocates.

One instance where the raw first-to-file rule would to be a clear step backwards for inventors, however, is when the person first-to-file improperly derived the invention from the inventor. The first-to-file could not obtain a valid patent since the patent belongs to the inventor or his legitimate successors (PHT Art.9). But, other things being equal, the inventor could not get a patent because he or she was not the first-to-file. Giving prior user rights to the first-to-invent would help, but would not cure the problem.

In addition to the interferences provoked by the first-to-invent principle, the determination of what is "prior art" revolves in considerable part around the issue of what is an applicant's or patentee's date of "invention"—35 U.S.C. §§ 102(a), (e) and (g). Changes in the definition of "prior art" conceivably would have more widespread, but readily understood, impact than abolition or retention of interferences.

In sum, although no clear consensus has emerged, I believe that our Association would support a change from first-to-invent to first-to-file if it was *shown* to have been exchanged for something of equal merit and if:

1. The change to first-to-file would not reduce the incentive to innovate in the United States; and

2. The reciprocal changes in foreign law would assure U.S. inventors effective foreign protection at minimal cost.

Regarding 1.—the incentive to innovate—we note that no first-to-file country has advanced science and the useful arts as much as has the United States. Careful studies should be made by economists, sociologists and historians to evaluate the relative effects of first-to-file and first-to-invent on innovation.

Regarding 2.—reciprocal changes to foreign laws— the greatest impediments to obtaining foreign patents are cost, unavailability of patents in certain technologies and term of patents; yet none of these will be addressed in the proposed harmonization treaty. Some impediments, such as time and complexity of patent prosecution and limited scope of patent claims, will be addressed in the harmonization treaty; but since these matters must be decided on a case by case basis, specific treaty requirements cannot be imposed.

2. Nature of aprior-userright, if any, to accompany a first-to-file system. Under Article 20 of the PHT there is a choice between makingprior user rights mandatory and making them optional. The proponents of first-to-file over first-to-invent seem to agree that prior user rights are desirable. So do we.

3. The inclusion of foreign public use, display or oral disclosure as prior art. Our Association has not reached a consensus on this issue. On the one hand we are not in favor of maintaining distinctions between U.S. and non-U.S. activity unless there is no practical alternative. The question is whether the potential for unnecessary uncertainty, expense or even fraud outweighs the benefits of uniform treatment. It is worth observing, however, that the "state of the art" rule as developed by the European Patent Office requires that the activity be sufficient to put the public in possession of thee invention, and the level of proof is quite high.

4. Prior art effect of certain patents and their effective dates for novelty and non-obviousness purposes (and the impact on the 1966 and 1970 decisions of the C.C.P.A. *In re Hilmer*). We favor statutory change of the decisions *In re Hilmer* and prior art effect for novelty back to the earliest effective filing date.

The U.S. has staked a claim to better foreign treatment of its own inventors and must be prepared to remove what foreigners perceive as the inequity of the *Hilmer* rules. Present U.S. law also takes considerations of obviousness back to the earliest effective prior art date and the Association sees noreason to change this rule unless, in the context of achieving harmonization, there is an opportunity to compromise with other countries to achieve a broad agreement on this or other matters.

5. The accommodation of equitable variations to existing statutory bars such as experimental use and secret use or sale. We favor, also, the retention of existing U.S. jurisprudence on the difference between experimental use and reduction to practice, and on the consequences of prior public use or placing on sale.

6. Publication of applications 18/24 months after filing. One of the few truly international standards going back many years is the laying open of patent applications 18 months after their effective priority dates. This provides the public and USPTO with an orderly means of learning about new inventions, promotes economic research and avoids conflict. Applicants concerned about loss of secrecy would have the right to withdraw an application within a reasonable time prior to publication. Thus we support the proposed change that, unless sooner withdrawn, patent applications be published 18–24 months after filing.

7. Protection offered between publication and patenting. We also favor provisional protection after publication—subject to eventually obtaining a patent. But we think that such a provisional remedy should be limited to published patent claims which have substantially the same scope as later allowed claims. Perhaps this provisional remedy should be limited to those having actual knowledge of the published application.

8. Measuring the term of protection from the filing date of the application. Subject to consideration of continuation-in-part applications, we support the proposal to have a patent term of 20 years from filing. The average time for USPTO to grant a patent is reportedly now about 18 months. This is fast by the standards of the other major examining offices, yet there are instances (clearly not in the public interest) where 20 or more years go by before a patent issues for a term of 17 years measured from grant. The 20 year term from filing is substantially fair and will properly focus attention on ways to further simplify and speed up the processing of cases that currently take so long.

CONCLUSION

To sum it up, we continue to believe that harmonization, itself, is a laudable goal. Although we have notyet reached a clear consensus concerning first-to-file versus first-to-invent, I believe that our Association would support a change to first-to-file if, on balance, it is shown to be in the best interest of our Nation and if the rights of inventors, small entities and prior users are sufficiently protected. Even without "full harmonization" (i.e., first-to-file), however, we support such proposed changes as measuring the term of patents from the filing date and publishing applications 18–24 months after filing.

Respectfully submitted,

WILLIAM J. GILBRETH,
President,
Board of Directors.

PREPARED STATEMENT OF JOHN T. WHELAN ON BEHALF OF THE BAR ASSOCIATION OF THE DISTRICT OF COLUMBIA

SUMMARY

- The Patent, Trademark & Copyright Section of the Bar Association of the District of Columbia (the "Section") opposes by a narrow margin the proposed change to a 20 year patent term measured from the U.S. filing date. This opposition is based primarily on the concern that the terms of issued U.S. patents could vary widely due to various unintentional delays experienced in the prosecution of applications.
- The Section favors the adoption of an internal priority right under 35 U.S.C. § 119 if a fixed patent term measured from the U.S. filing date is enacted.
- The Section favors the laying open of applications for inspection at 18 months from the earliest filing date. This change would permit U.S. industry to more quickly evaluate the patent protection being sought by others as well as the patentability of their own inventions.
- The Section favors the granting of provisional rights to recover for infringement occurring between the publication of an application and the issuance of the resulting patent.

I. INTRODUCTION

The Patent Trademark & Copyright Section of the Bar Association of the District of Columbia is a membership of several hundred composed largely of practicing patent attorneys who represent applicants before the PTO and both patentees and ac-

cused infringers in contested proceedings. In response to a Request For Public Comments On Patent Law Harmonization issued by the Patent and Trademark Office (PTO) last August, our Section distributed a survey to Section members. The survey was intended to reveal the Section's views on various aspects of proposed changes to the U.S. patent laws, some of which are reflected in S.1854. The results of this survey that relate to S. 1854 and the comments of our Section are respectfully submitted at this time in the belief that they may assist the Subcommittee in considering the views of practitioners as they relate to the changes proposed in S. 1854, as well as other possible changes to the U.S. patent laws which have been under consideration.

The results of the survey are summarized below.

Questions	Yes	No	Abstain
1. Should the term of a patent be measured fromthe filing date of the application?	12 (41 percent)	16 (55 percent)	1
2. Should the U.S. Patent and Trademark Officepublish U.S. patent applications 18, or at thelatest 24 months, after the earliest effective filing date?	17 (59 percent)	12 (41 percent)	0
3. Should provisional rights be given to anapplicant in the form of protection frominfringers of inventions claimed in both a published application and the resulting patent?	16 (55 percent)	10 (34percent)	3

II. SUBSTANTIVE CHANGES PROPOSED BY S.1854

Substantive changes to U.S. patent law which are proposed in S. 1854 include the following:

1. Changing the term of a utility patent to a period of 20 years measured from the U.S. filing date;
2. Providing applicants with an "internal priority right" to claim the filing date of an earlier-filed U.S. application under 35 U.S.C. § 119;
3. Making pending applications available for public inspection after 18 months from filing date, or earlier if confidentiality is waived by applicant; and
4. Providing applicants with provisional rights to recover a reasonable royalty from infringers of inventions claimed in both a published application and the resulting patent.

III. COMMENTS

A. 20 Year patent term

Those members of our Section who responded to the survey were opposed to this proposed change by a margin of 55 percent to 41 percent.

The Section recognizes that there is a concern that the current 17-year-from-issue patent term (without early publication of applications) may foster a misuse of the system, such as permitting the intentionally extended prosecution of a few well-publicized "submarine patents." However, wide variations presently experienced in the pendency of applications render a fixed 20 year patent period inequitable. Specifically, the examination process may be delayed for a variety of reasons beyond applicants' control, including, for example, the declaration of an interference, appeal or even the subject matter of the application. The innocent (yet unfortunate) applicant who finds himself the victim of such an extended examination process would, absent intervening rights, also find himself deprived of some of his patent term due to the delay. If such delays are addressed in the form of patent term extensions available in appropriate circumstances, then a fixed patent term from filing would be viewed more favorably.

B. Internal priority right

While not a topic of our survey, the Section considers the provision of an internal priority right under 35 U.S.C. § 119 to be necessary if a fixed patent term measured from the U.S. filing date is enacted. Such a right is essential to place U.S. inventors on a level field with that enjoyed by most foreign patentees.

The form of the internal priority right envisioned in S. 1854 is found in the proposed amendments to § 119 of Title 35, which would permit an applicant to claim priority from an earlier filed U.S. application which complies with all of the paragraphs of 35 U.S.C. § 112. In the Section's view, the particular requirements of this

right to internal priority, while achieving the effective 21 year period available to applicants claiming priority from a foreign application, could be improved.

Specifically, the Section notes that the widely-discussed, so-called "provisional application," expected in proposed legislation currently being prepared by the PTO, enjoys widespread backing as a vehicle by which inventors can establish a date of invention through the filing of a simple and inexpensive informal provisional application. Such provisional applications, which are expected to require compliance with only the first paragraph of § 112[1] and which would require no claims or formal drawings, would provide simple, expedient and inexpensive access to the PTO and effective preservation of inventors' rights. The Section respectfully recommends that the Subcommittee consider incorporating provisions for the filing of informal provisional applications into S.1854.

C. Publication of applications

The Section favors, 59 percent to 41 percent, the laying open of applications at a fixed time period after the earliest effective filing date. This provision would be particularly effective in permitting U.S. industry to effectively identify and evaluate the applications of others at a relatively early stage, thus giving industry a chance to avoid infringing those patents before they issue. Submarine patent applications would no longer be able to lay in waiting indefinitely, protected by the endless secrecy presently enjoyed by pending applications. Applicants would further be able to more quickly evaluate the patentability of their own inventions, because prior art under 35 U.S.C. § 102(e) would be identified more quickly.

Concern with automatically laying pending applications open for inspection focuses on the threatened loss of applicants' ability to maintain trade secret protection upon publication of an application which is later held to be unpatentable The provision of, for example, accelerated examination to permit applicants to assess the patentability of their applications prior to the 18 month publication date (and the opportunity to abandon an application without publication, if desired) is proposed as a possible remedy for this concern.

The Section further notes that the laying open of applications 18 months after the filing date of the. application for patent (including all priority claims), as proposed in S.1854, raises some procedural questions. For example,

1. Would divisional and continuation applications that are filed more than 18 months after the filing of the parent application be opened for public inspection immediately upon filing? If so, is that desirable?
2. What comprises the "application" to be opened for public inspection at 18 months? Is it the "internal priority" application, the completed formal application or the complete PTO file wrapper?
3. What would be the effect of laid-open applications as prior art against other applications? For example, if the entire PTO application file is opened for inspection, would other documents in the file, such as responses or declarations of the applicant, be deemed published and thus qualify as prior art?

Questions such as these, in the Section's view, merit serious consideration.

D. Provisional intervening rights

The Section favors, 55 percent to 34 percent, the granting of provisional rights to protect applicants from infringers of inventions claimed in both a published application and the resulting patent. While the Section notes that the statutory requirement that the claims in the issued patent and published application be "substantially identical" appears open to some interpretation, it is recognized that requiring true identicality of the published and issued claims would unreasonably restrict the patentee during prosecution of the application.

The Section welcomes the opportunity to submit these Comments and would be pleased to address any questions which the Subcommittee may have.

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[1]The Section questions whether a provisional application should require that the best mode requirement of the first paragraph of § 112 be satisfied. Would not the public be better served by requiring that the best mode be disclosed at the time of the completed application or even prior to the issuance of the patent?

STATEMENT OF RICHARD J. GILBERT[1] ON BEHALF OF THE ANTITRUST DIVISION

I am pleased to present the views of the Department of Justice on S. 1854, The Patent Term and Publication Reform Act of 1994, which is sponsored by Chairman DeConcini.

The Department of Justice, and in particular, the Antitrust Division, is charged with the enforcement of the antitrust laws, and more generally with protecting and promoting competition. We take an interest in intellectual property law because it plays a central role in competition policy issues in many industries, particularly in high-technology industries.

Antitrust law and intellectual property law were once seen as inherently in tension with one another. Intellectual property law was viewed as a series of exceptions to the antitrust laws, to be narrowly construed. The current view, however, is that intellectual property rights are part of a broader scheme of private property rights, which is the foundation for our economic system; intellectual property law and antitrust law, thus, are intended to serve the common objective of promoting competition and consumer welfare. Properly defined and appropriately delimited intellectual property rights promote the creation, and efficient exploitation, of intellectual property. By spurring the introduction of new products and cost reductions, intellectual property rights can also be fairly construed as having a procompetitive effect.

S. 1854 would make two significant changes in U.S. patent law. First, it would amend section 154 by making the term of patents 20 years from the date of filing, rather than the current term of 17 years from the date of the patent grant. Second, it would amend section 122 by making patent applications open to the public, and published by the Patent and Trademark Office, 18 months after filing. Under current law, patent applications are kept confidential unless and until a patent is issued.

The Department of Justice strongly supports changing the tolling date for patent terms from the date of grant to the date of application. The Department also finds merit in the concept of more rapid disclosure of the contents of patent applications, but suggests that further study may be appropriate. The Department also notes that there are concerns that special rules may be needed for certain areas, such as biotechnology, and the Administration is reviewing this issue.

PATENT TERM PROVISIONS

The first patent act in 1790 provided for a 14 year term.[2] It was increased to 17 years in 1861[3] and has remained unchanged ever since. The tolling date for the term of patents in the United States has always been the date of the patent grant. The exclusive rights granted to patent holders by section 154 literally apply only during the patent term, but as a practical matter these rights apply to a significant extent during the period of its pendency as well.[4] Thus, the effective term of patent rights varies with the length of the pendency period.

Typically, the pendency period has been fairly brief-no more than a couple of years. There have been, however, significant exceptions. One of the most infamous is the Selden patent on the automobile. The application was filed in 1879, but the patent was not granted until 1895. Also notable is that the patent was declared invalid in 1911, 31 years after the application was originally filed.

Even apart from extreme cases such as the Selden patent, there is variation in the length of the pendency period. Variation in the effective term of patent rights might serve legitimate objectives, and Congress has, for example, permitted the extension of patent terms for certain products subject to delays in regulatory approval.[5] There is, however, no reason to believe that the public is well served by variation in the effective term of patents occasioned by variation in the period of pendency. For this reason alone, the Department would be inclined to support the proposed change in the tolling date for patent terms.

There is, however, a much more compelling reason for Congressional action. Patent applicants may now have a positive incentive to delay the Patent and Trademark Office's consideration of their applications. Every day they delay the grant of

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[1] Deputy Assistant Attorney General, Antitrust Division, U.S. Department of Justice.

[2] 1 Stat. 109 (1790). The 14-year period had been used in English law. Statute of Monopolies, 21 Jac. 1, c. 3 (1624).

[3] 12 Stat. 249 (1861).

[4] See *Procter & Gamble Co.* v. *Nabisco Brands, Inc.*, 604 F. Supp. 1485 (D. Del. 1985) (sales before patent issue may be contributory infringement if customers will resell or use the product after issue); Charles E. Miller, Some Views on the Law of Patent Infringement by Inducement, 53 J. PAT. OFF. SOC'Y 86, 1119 (1971).

[5] These are codified at 35 U.S.C. § 156 (1988).

a patent is another day for which they enjoy effective patent protection. Even if longer patent terms were desirable, it would not be desirable to achieve that end through delaying the administrative process. The private and public administrative cost of this delay can be significant, and such costs represent a pure waste of resources.

One particular problem may be the filing of a very general and very broad claim at an early stage of development of a basic technology and then filing a series of more specific statements of the claim as the technology develops and matures. This is what occurred with the Selden patent on the automobile I mentioned earlier,[6] and this practice has been decried for more than a half century.[7] Patents of this type were once termed "dragnet" patents, and have been more recently termed "submarine" patents.

I cannot say how widespread these problems are or the extent of the costs they impose on the nation.[8] But I can say that there is no reason for the patent law to provide inappropriate incentives. S. 1854 would eliminate such incentives by making the effective term of patent protection entirely independent of the period of pendency. It is of at least historical interest that this precise solution was proposed by the Commissioner of Patents in 1939.[9] I can think of no better way of eliminating the incentive for abuse, and the Department strongly supports that provision of the bill.

S. 1854 would adopt a 20 year patent term, running from the date of filing. Since the average pendency period for patent applications is less than two years, S. 1854 would increase slightly the effective term of patent rights. (This would probably not be the case in the biotechnology area, where the pendency period is often substantially larger.) The motivation of the legislation, however, is not to increase the effective term of patent rights. The 20-year term from date of filing is contained in Article 33 of the Agreement on Trade-Related Aspects of Intellectual Property Rights, which is part of the recently completed Uruguay Round of GATT negotiations. Article 33 was designed to harmonize the patent laws of many nations.

APPLICATION DISCLOSURE PROVISIONS

S. 1854 would also change the disclosure provisions of the patent law. As I stated previously, applications are now confidential until the issuance of the patent. S. 1854 would require that the disclosure be made after 18 months, even if no patent has issued. This proposed change addressees one of the basic goals of the patent law—to encourage the timely public dissemination of new technological developments.

Without patent protection, inventors would attempt to keep their ideas secret so that they can limit appropriation of their intellectual property. The inevitable result would be a slower dissemination of new technology. This, in turn, would reduce the social benefits of the new technology in many ways. Most notable among them would be that inventors would waste resources in reinvention of technology already invented.

With patent protection, the speed of dissemination of new technology is also an issue. While a patent is pending, others may waste significant resources pursuing research agendas that ultimately prove unrewarding because of an undisclosed prior patent claim on the technology. Earlier disclosure of patent applications, as provided by S. 1854, clearly mitigates this problem. In addition to eliminating merely duplicative research, more timely disclosure can also help steer research into more promising areas.

Notwithstanding the foregoing, representatives of small inventors expressed reservations about the publication of applications prior to patent grants at hearings conducted by the Patent and Trademark Office last October, and the Department is concerned about the effects of such publication. There is at least a theoretical potential for the publication of applications prior to patent grants to have adverse incentive effects because of the potential for appropriation of the intellectual property when no patent are ever issued. To avoid appropriation of intellectual property, some inventors who otherwise would apply for patents might rely instead on trade

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[6] See Walton Hamilton, Patents and Free Enterprise, T.N.E.C. Monograph No. 31, at 116–17 (1941).

[7] See George W. Stocking & Myron W. Watkins, Monopoly and Free Enterprise 458–59 (1951); Floyd L. Vaughan, The United States Patent System 215–18; Alfred E. Kahn, Fundamental Deficiencies of the American Patent System, 30 AM. ECON. REv. 475, 485–86 (1940); C. Michael White, Why a Seventeen Year Patent?, 38 J. PAT. OFF. SOC'Y 839, 84748 (1956).

[8] There was significant dispute on this subject at public hearing conducted by the Patent and Trademark Office last October 7 and 8.

[9] See Hearings, supra note 7, at 860.

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secret protection. If so, the result would run counter to the goal of facilitating dissemination of new technology.

As I understand European and Japanese patent law, and practice in the Patent and Trademark Office, the Department's concern may be of no practical significance in the majority of cases. Patents are most often applied for in Europe, Japan, and the United States at roughly the same time. The patent laws in Europe and Japan require disclosure of the contents of the application by the time that S. 1854 would require it in the United States.[10] I am also informed by the Patent and Trademark Office that for patents not granted within 18 months, applicants often will have an indication if eventual grant is in serious doubt. In such cases, applications can be withdrawn to prevent disclosure after 18 months. Under these circumstances, concerns about the disclosure provisions of S. 1854 may be unimportant.

On balance, taking into account the fact that there are potential costs as well as benefits, the Department suggests that further study of the issues raised by the disclosure provisions of S. 1854 may be appropriate.

I thank the Subcommittee for this opportunity to present the views of the Department of Justice.

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[10] See Donald S. Chisum & Michael A. Jacobs, Understanding Intellectual Property Law § 2D[1][c] (1992) ("Japan's and Europe's patent systems publish applications 18 months after their effective filing date * * *.").

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